ANTHONY A. WILLIAMS
MAYOR

January 23, 2006

Dear Residents:

I am pleased to present the District of Columbia's (District) Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR). Once again the audit opinion is unqualified. We completed Fiscal Year 2005 with a surplus of $369.7 million, resulting in a fund balance of $1.6 billion in the General Fund.

This is the ninth consecutive year that the District realized surpluses and earned an unqualified opinion on its financial statements. These accomplishments have significantly improved the District's access to more favorable financing rates in the credit markets, and have also created increased interest in investing in residential, retail and commercial projects throughout the District.

The District's general obligation bond rating was just recently upgraded to "A+" by Standard and Poor's, upgraded to "A" from "A-" by Fitch Ratings, which retained its positive rating outlook for the District, and rated "A2" by Moody's Investors Service, with an improved "positive" outlook.

During my 2005 State of the District Address, I identified three priorities for 2005: (1) reviving our most neglected neighborhoods; (2) improving the infrastructure of our city, and (3) reducing taxes for all D.C. residents, especially for those with the least ability to pay.

Our New Communities initiative brings the city's services to bear in addressing the factors negatively impacting key vulnerable neighborhoods across the city. This initiative is aimed at developing a community plan -- incorporating a close planning partnership between the city and the residents -- to protect affordable housing, decrease poverty, reduce crime and leverage public and private resources to support the human and physical capital of certain communities. NW One/Sursum Corda is the first candidate community to begin work on a new neighborhood plan.

Our new Way to Work initiative connects District residents to jobs by establishing a strong partnership with the business community to fund training, establish a living wage and expand requirements for first source hiring of District residents. We also invested an additional $6.4 million to train and provide summer employment for 10,000 District youth between the ages of 14 and 21.

The District, through the D.C. Housing Finance Agency (HFA) issued $57.5 million in tax-exempt bonds that were used for the production or preservation of 765 affordable housing units, most of which were in vulnerable neighborhoods. In addition, HFA partnered with the D.C. Housing Authority to issue more than $76 million in tax-exempt bonds to help rehabilitate and modernize approximately 6,858 public housing units across the city. Individuals and the private sector are also involved in the rehabilitation of existing units and the construction of new residential units throughout the entire city.

The District's capital improvement plans for FY 2005 included projects throughout the District, touching every agency and impacting every sector of the city. The grand total for FY 2005 was $578 million, which included renovation and construction of facilities that directly supported programs for our senior citizens and our children, and services that benefit residents, commuters and visitors such as police, fire and emergency services. Government buildings used to provide services directly to that public have also been improved. The District's Highway Trust Fund is also being used to make major improvements in our city's bridges, highways, streets and sidewalks.

Our new Great Streets initiative will extend the economic successes of downtown Washington into our neighborhoods through targeted investment in infrastructure and business assistance. This investment is aimed at re-energizing historic major corridors into community economic development anchors and creating dynamic public spaces highlighting neighborhood history and heritage.

My third priority over the past year was to provide broad and progressive tax relief to District residents. Our strong economy provides an opportunity for tax relief. Beginning on October 1, 2005, the District's homestead deduction for owner-occupied residences increased from $30,000 to $60,000. The Class One property tax rate decreased from $0.96 to $0.92 per $100. More needs to be done, and as our tax base becomes larger as a result of attracting more residents and jobs, and through increased economic development activity, the District will be able to extend tax cuts to other areas that affect the affordability of living in the city.

There are three major development projects that remain priorities of my Administration: (1) the development of the convention center hotel; (2) the redevelopment of the site of the old convention center, and (3) the Anacostia Waterfront Initiative, which should result in $7 billion worth of government and private sector investment in housing, retail, museums, and parks in sections of the city that currently are underdeveloped or blighted.

Finally, we were extremely pleased this year with the successful relocation of the Montreal Expos baseball team to Washington, D.C. as the new Washington Nationals. The Nationals played their 2005 baseball season at Robert F. Kennedy (RFK) Stadium with an impressive number of wins and an impressive number of fans in attendance. They will continue to play at RFK Stadium until a new stadium planned to be constructed on a site in the Southeast sector is completed in 2008. This is a critical element in creating investment opportunities in this long neglected Southeast neighborhood – investment opportunities that will be reflected throughout the city.

The improved economic climate over the past few years has resulted in more resources to improve the safety, health and education of our citizens. We will continue to do what is needed to improve opportunities for Washingtonians. With your continued support, we will continue to lift up all communities to give our children a proud legacy.

Sincerely,

Anthony A. Williams
Mayor

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

Natwar M. Gandhi
Chief Financial Officer

January 23, 2006

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams:

On behalf of the citizens of the District of Columbia, we are pleased to present the District's Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR). The year ended with General Fund revenues exceeding expenditures by $369.7 million and a fund balance of $1.6 billion. The District's financial statements have once again earned an unqualified "clean" audit opinion from our independent auditors. The District has achieved nine consecutive balanced budgets. That is nine years of fiscal recovery with each year ending in a budget surplus and an unqualified audit opinion.

During Fiscal Year 2005, total general fund revenues and other sources were $112.9 million higher than were initially forecast. This was primarily the result of total taxes collected being $116.8 million more than expected. Expenditures and other uses were lower in every category; as a result, spending was $195.4 million less than budget. Actual revenues and sources exceeded actual expenditures and other uses by $446.4 million on a budgetary basis, and by $369.7 million on a basis consistent with generally accepted accounting principles.

We have accumulated an emergency and contingency cash reserve of approximately $253.4 million, and our financial condition has allowed the District to continue to improve its bond ratings. As a result, we enjoy lower borrowing costs on the District's outstanding debt.

The District works to insure that there are sufficient resources to meet critical needs and to avoid excessive debt. The federal government's restructuring in 1997 acknowledged that the District does labor under a difficult structural imbalance in meeting those needs, but a long-term solution is still needed. The overall economic and structural position of the District remains a pressing issue that needs the attention of the U.S. Congress and the President of the United States.

I would like to commend the many employees, both program and financial staff, especially the staff of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books. They have again ensured that our records meet the highest standards required for an unqualified audit opinion. I am happy to report that the District has again been awarded the "*Certificate of Achievement for Excellence in Financial Reporting*" by the Government Finance Officers Association.

The many improvements that have been made in financial staffing, systems, and operations have allowed the program staff to more effectively manage government operations at all levels. The District is one of the few major city or state governments in the United States that prepares its own CAFR. As we have continued to refine and improve our financial systems and processes, it is now firmly established that the annual audit requirement has become a routine event in the District's overall financial management reporting.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer

Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2005

Prepared by:

Office of the Chief Financial Officer
Office of Financial Operations and Systems

Anthony F. Pompa
Deputy Chief Financial Officer
810 First Street, NE, Suite 200
Washington, D.C. 20002

DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2005

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January 23, 2006

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2005, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District. This report includes all disclosures necessary for readers to gain a useful understanding of the District's financial activities. The city of Washington, D.C. is referred to in this CAFR as Washington, also as D.C., and as the city.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this letter of transmittal, the District's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, required supplementary information, and other supplementary information which includes combining and individual fund statements and schedules. The District began presenting the MD&A section in fiscal year 2002, as required by the Governmental Accounting Standards Board (GASB) Statement No. 34. It is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented as required supplementary information in every financial report that includes basic financial statements presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America.

The statistical section presents detailed information that assists readers of the CAFR in assessing the overall economic condition of the District. This section was completely revised in fiscal year 2004 to comply with GASB Statement No. 44, *Economic Condition Reporting: the Statistical Section.* The tables in the statistical section differ from the financial statements, because they usually cover more than two fiscal years and may present non accounting data.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the agencies that make up its legal entity.

The Water and Sewer Authority (WASA), the Washington Convention Center Authority (WCCA), the Sports and Entertainment Commission (SEC), the Housing Finance Agency (HFA), the University of the District of Columbia (UDC) and the Anacostia Waterfront Corporation (AWC) are the District's component units. These are legally separate organizations for which the primary government is financially accountable. The financial data for these discretely presented component units are reported separately from the financial data of the primary government. The Tobacco Settlement Financing

Corporation (TSFC) is presented as a blended component unit, as required by GAAP for state and local governments. The District of Columbia Housing Authority (DCHA), The National Capital Revitalization Corporation (NCRC), and the District of Columbia Courts are related organizations, because the District is not financially accountable for their operations.

Factors Affecting the District's Financial Condition

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known structural imbalance. Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides for the presence of the Federal government and other non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities puts a severe strain on the District's limited resources. The District is also faced with high concentrations of individuals who require substantial support for education, health care, job creation/training, and subsidized housing. Furthermore, Washington, D.C.'s poverty, crime, and drug usage rates have been historically higher than many cities of comparable size. Although this report is now almost three-years old, the situation remains essentially the same, and the District's structural imbalance condition has not improved. The GAO is located at: 441 G Street, N.W., Washington, D.C. 20548 on at (202) 512-3000.

The GAO report is very detailed, and is a recommended reading for all who wish to obtain a more complete understanding of this issue, which is extremely important to the long-term improvement of the District's governmental operations, delivery of services, and its economic well being. Please contact the GAO at http://www.gao.gov/index.html or on (202) 512-3000 to request a copy of GAO-03-666. The following section provides highlights from the report:

- The cost of delivering an average level of services per capita in Washington, D.C. far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and the high cost of living.
- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. Revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Data limitations and uncertainties surrounding key assumptions in the GAO analysis make it difficult to determine the exact size of the District's structural deficit, though it likely ranges from $470 million to $1.143 billion annually.
- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.
- The District continues to defer major infrastructure projects and capital investment because of its structural imbalance and its high-debt level. These two factors make it difficult for the District to raise taxes, cut services, or assume additional debt.

In a recently issued report, *Pulling Apart: A State-by-State Analysis of Income Trends*, it was concluded that the gap between the highest and lowest income families in the city grew substantially between the early 1980s and the early 2000s. Incomes for the city's richest families climbed considerably, while income remained stagnant for the poorest families, and income growth for middle-income families experienced only modest growth. These findings demonstrate that increasing economic growth will not, by itself, reduce economic inequality. The District continues to request that the federal government address the District's revenue limitations. The District must target and manage programs and services directed at D.C.'s poorest and at-risk families more effectively, while also making it more attractive for middle-income families to remain in the city. This report was prepared by the Center on Budget and Policy Priorities and the Economic Policy Institute, based in Washington, D.C.

Current Economic Condition and Outlook

As the nation's capital, Washington, D.C. is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The federal work force in Washington, D.C. included approximately 193,900 employees in FY 2005, while approximately 154,400 additional federal employees worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer people than in the past, new business operations,

especially in the service industry, continue to fill the void and are strengthening the local economy. The increased spending by the Department of Homeland Security is helping to stabilize federal employment in the area.

Washington, D.C. hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. Also, a number of international organizations have their headquarters in Washington, D.C., including the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States. The United States' increasing involvement and leadership in international security, and economic, political and health affairs of the world makes it very likely that even more international organizations will establish offices within Washington, D.C. and the Washington metropolitan area.

More than 400 museums and historical landmarks, located in Washington, D.C., attract millions of visitors each year. There are also many popular attractions near to Washington which also attract visitors to the entire metropolitan area. Citizens of the United States and international visitors enjoy the many popular attractions along the National Mall as well as the monuments to U.S. presidents and the war memorials. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at Fort Stevens and at the National Museum of Health and Medicine at the Walter Reed Army Medical Center located in the Georgia Avenue corridor. Additional attractions include the Congressional Cemetery at Fort Dupont Park in Southeast, and Fort McNair in Southwest. With its variety of attractions and rich history, Washington, D. C. is consistently voted a top destination for vacationers.

In calendar year 2004, approximately 17.7 million U.S. citizens visited Washington D.C., an increase of about 7.9% from the revised 2003 figure of 16.4 million. An estimated 1,057,000 international visitors traveled to Washington, D.C. in 2004, an increase of about 22.2% from the 2003 revised figure of 865,000 for international visitors. Overall, visitors to Washington, D.C., both foreign and domestic, increased from 17.3 million in 2003 to 18.8 million in 2004, or about 8.6%. The 2005 calendar year visitor figures are not yet available. These visitors are very important to Washington, D.C.'s economy because of the large sums of money spent on lodging, meals, retail purchases and other services. Hotel occupancy has increased from 69.0% in 2003 to 72.4% in 2004. The city's tourism industry generates more than $10 billion in direct spending each year and sustains 260,000 jobs. This direct visitor spending continues to generate additional business activity in related industries and is boosting local as well as regional economic growth. This trend is expected to continue. Some of the references to the 2004 visitor numbers are different from those shown in the FY 2004 CAFR because of updates and revisions.

Washington, D.C. is a diverse economic community. Service industries now surpass the federal government as the largest employer. Expansion in legal services, high-speed internet technology and communications provide new employment opportunities. Washington, D.C is home to several prominent universities and major institutions of higher learning, and other universities from across the nation have established programs or campuses in and around the city. The District has 16 acute and long-term medical care facilities, including medical centers, hospitals for children and members of the military, and a regional shock and trauma center. More than 2,500 national trade associations, voluntary health and welfare and other not-for-profit organizations, and labor organizations are also headquartered in Washington, D.C.

Total employment in the Washington metropolitan area increased to approximately 2,939,700 in FY 2005 from 2,860,300 in FY 2004, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the actual work force of the region. Washington, D.C. resident employment stayed at approximately 23% of the area total during the past three years. The September 2005, seasonally adjusted, unemployment rate in Washington, D.C. was 6.1%, compared to the September 2004 rate of 6.2%. Total employment within Washington, D.C. increased to 680,700 in September 2005 from 670,800 in September 2004. Some of the references to 2004 employment numbers are different from those shown in the FY 2004 CAFR because of updates and revisions.

Effective January 1, 2006, the standard minimum wage for employees in Washington, D.C. increased from $6.60 to $7.00 per hour. This is the second minimum wage increase since 1997, the first one occurred on January 1, 2005, when the minimum wage was increased from $5.15 to $6.60 per hour. District law also requires that the minimum wage rate for Washington, D.C. employees be at least $1.00 per hour greater than the minimum wage set by the federal government. The federal minimum wage rate is currently $5.15 per hour, and it has been at that rate since September 1, 1997. Increases in the minimum wage benefits working families, disadvantaged workers, reverses the trend of declining real wages for low-wage workers, and is part of a broad strategy to reduce or eliminate the effects of poverty.

The anticipated increase in non-governmental and total employment will mark an important milestone. The shift to a diversified employment base will continue to strengthen the Washington, D.C. economy, and make it more stable and less dependent on the federal government. The trend for federal operations to move into suburban areas is slowing, while Washington, D.C.'s economic base is continuing its shift from government towards private sector services employment.

The Census Bureau annually updates all previous population estimates from the latest decennial census (2000) until the next complete census. The 2000 Census indicated that estimates of population loss from Washington, D.C. had been overstated in Census estimates during the previous decade. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 Census results. Those same Census estimates predicted that the Washington, D.C. population would not reach its current level for approximately five more years. In fact, Washington, D.C.'s population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000. The U.S. Census Bureau estimated that in July 2005 there were 550,521 permanent residents in Washington, D.C., a slight decrease from the preliminary July 2004 figure of 553,523, which has been revised slightly upward to 554,239.

The annual Census estimates are based on birth and death records, changes in tax return filings and estimates of the number of immigrants who moved into Washington, D.C. each year. District officials have disagreed with this estimate because it does not take fully into account increased residential construction, property transfers and undocumented individuals. There is evidence that the U.S. Census Bureau has been historically low in its estimates of Washington, D.C.'s population. These estimates can seriously affect the amount of Federal dollars that the District receives, which is based on the Census Bureau's total population reports. To justify its estimates, the Census Bureau has stated that it believes that although new residents are moving into Washington, D.C., they are primarily small family units, or individuals, while the family units moving out of Washington, D.C. usually have more family members. The District has decided to challenge the 2005 estimate, based on its own population projection, which takes into account the boom in housing construction, tax filings and the conversion of vacant buildings into occupied units. The District believes that there are approximately 577,500 people who lived in Washington, D.C. as of July 1, 2005.

Major Initiatives

Washington Convention Center Expansion

In 1995, the District established the Washington Convention Center Authority (WCCA) and provided it with dedicated tax revenues to operate the existing convention center and to construct the new convention center. The new Washington Convention Center opened in April 2003, providing the District with more than 850,000 square feet of meeting and exhibition space. The new Convention Center, with a total of 2.3 million square feet of space, has 703,000 square-feet of exhibit space, 150,000 square-feet of flexible meeting space, a 52,000 square-foot ballroom, along with 44,000 square feet of retail space and a street level restaurant. The new facility enables the District to maintain its position among major cities as a leader in conventions, conferences and the hospitality industry in general. In its first year of operation, the new Convention Center was named "Best New Convention Center" by Meeting East Magazine. The Convention Center attracted 441,900 attendees in 2005, generating about 615,000 hotel room nights, resulting in approximately $463.6 million in attendee spending. In 2004, there were 482,700 attendees, generating about 460,000 hotel-room nights, resulting in approximately $506.4 million in attendee spending. Like the MCI Center, a privately financed sports arena that opened in 1997, the new Convention Center generates many new jobs in the hospitality industry.

In December 2004, the Board of Directors of the WCCA decided to expand the meeting and ballroom capacity of the new convention center by 75,000 square feet and to develop and own a headquarters hotel with at least 1,200-rooms and 100,000 square feet of meeting and ballroom space. This decision was followed by a six-month feasibility analysis by WCCA to determine whether the hotel could indeed be built at a site next to the new convention center on 9th Street between Massachusetts Avenue and M Street, N.W. Several issues for the hotel at this site remain, including land acquisition, design, historic preservation and financing, which must be explored in depth before reaching resolution. In the event that development of the hotel at this site is not feasible, the District has agreed to reserve adequate space at the old convention center site, just a block away, for the hotel project. That agreement now allows the District to move forward with plans for a mix of housing, office, retail and cultural uses on the site of the old convention center. The demolition of the old convention center was completed in December 2005, and the site is currently utilized as an interim parking lot. WCCA is currently negotiating for the acquisition of the site for the hotel at Massachusetts Avenue and Ninth Street, N.W. WCCA's current plan is for the hotel to contain 1,400 rooms, and the cost is estimated at $500 million. Private partners are projected to pay about $350 million, with the remainder of the money to come from tax-increment financing.

Anacostia Waterfront Initiative

On March 22, 2000, the Mayor brought together the 20 federal and District agencies that own or control land along the Anacostia River to sign the Anacostia Waterfront Initiative (AWI) Memorandum of Understanding (MOU). The AWI MOU created an unprecedented partnership between the federal and the District government to transform the Anacostia River from the city's forgotten river to a gem that could rival any urban waterfront in the world. The District plans to transform the

Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and create parks, neighborhoods and cultural venues. The plan, as outlined by District officials, would cost approximately $8 billion and take at least 25 years to complete. In August 2004, the District created the Anacostia Waterfront Corporation to design, plan and control all of the development in and around the Anacostia River. One of the Corporation's goals is to make the Anacostia safe for swimming by 2025.

The District's vision of the AWI is that of a clean and vibrant urban waterfront setting – places for people to meet, relax, encounter nature and experience the heritage of the waterfront neighborhoods. The AWI also seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River for whom the river has been distant and out of reach. The federal government has announced plans to increase its employment presence in the Southeast Federal Center, which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard. The U.S. Department of Transportation has announced plans to develop a new headquarters' building near the Southeast Federal Center.

On December 10, 2004, a milestone was reached in the continuing redevelopment of the Anacostia River waterfront when the District announced the winning design for a new 1.8 acre park, Canal Park, on Second Street, between L and M Streets in Southeast. Through a grant from the National Endowment for the Arts, the non-profit Canal Park Development Association coordinated a competition on behalf of the District of Columbia to design a new park on a three-block site along the route of the historic former Washington Canal. The canal once connected the Anacostia River to the U.S. Capitol and the Potomac River.

The new "Washington Nationals" Baseball Team

On September 29, 2004, the District announced that an agreement had been reached with Major League Baseball (MLB) that would allow the then-Montreal Expos to move to Washington, D.C. The team was renamed the "*Washington Nationals*" and played its 2005 baseball season at Robert F. Kennedy (RFK) Stadium. The Washington Nationals will continue to play at RFK until a new 41,000 seat stadium is constructed. The original agreement required that the District construct and totally finance a new baseball stadium by the 2008 baseball season. The new stadium will be financed by a bond issuance backed by a fee on District businesses with over $5 million in gross receipts, a percentage of the gross receipts tax collected from utilities for non-residential services, rent payments from the team owners, and a sales tax on baseball goods and merchandise sold at the stadium.

The Mayor's office originally estimated that the stadium, plus land acquisition and infrastructure would cost $440 million. Subsequently, the District's CFO and the D.C. Auditor estimated that the entire project would cost $534.8 million and $584 million, respectively. On December 21, 2004, the D.C. Council passed the Ballpark Omnibus Financing and Revenue Act of 2004, which authorized the District to issue up to $534.8 million in bonds to pay for the RFK renovation and the new ballpark.

According to District projections, ballpark construction would support 3,500 jobs and generate $5 million in new tax revenues. Annual team and ballpark operations are projected to create more than 350 jobs and nearly $30 million annually in new tax revenues. The proposed site for the new ballpark on the Anacostia Waterfront has both Metro and highway accessibility. The new stadium is to be the centerpiece in the development of the Southeast D.C. waterfront, in addition to being the first major project to be undertaken in one of the areas under control of the newly created Anacostia Waterfront Corporation. The Mayor signed legislation creating the Corporation on August 5, 2004.

The District selected HOK Sport of Kansas City on March 31, 2005 to design the new *Nationals* stadium, with construction set to begin by April 2006. The District is in the process of acquiring the 21-acres of land from the current owners in the Southeast neighborhood selected for the new baseball stadium. Seven of the landowners have agreed to sell their properties, for a total of $14 million, and the District is using its powers of eminent domain to assist in the acquisition of the additional properties from the remaining 16 property owners. The District filed suit in D.C. Superior Court, and deposited $84 million in offers in a court-controlled trust. The eminent domain process will attempt to arrive at a fair and equitable price for the properties, by determining what the properties were worth prior to the announcement of the District's plans to construct a baseball stadium on the site.

According to the Baseball Stadium Agreement, the District needed to enter into a lease with MLB by December 31, 2005. However, by this date, the lease had not yet been approved by Council. On January 4, 2006, MLB announced that it was formally requesting that the American Arbitration Association begin a mediation process that, if not settled within 15-days, could result in binding arbitration, which will be concluded within six-months. The Mayor is expected to re-submit the lease by the end of January, 2006, after making further changes. It is anticipated that if the D.C. Council approves a lease

agreement that is acceptable to MLB, then the nonbinding mediation and/or the binding arbitration will no longer be an issue. The District can then move quickly to issue stadium bonds, complete the property acquisition process, and begin the construction of the stadium. The construction process requires site clearing, environmental assessment and remediation, and excavation, before actual construction of the stadium can begin.

Department of Transportation

The District's Department of Transportation (DDOT) manages multiple active projects that maintain, upgrade or reconstruct many of the local sidewalks, streets and bridges. This comprehensive infrastructure revitalization effort enhances the general appearance of neighborhoods but also eases the access and quickens the flow of traffic through the business activity centers. The renewal projects add to the ability of the District to compete for new residents and businesses. Each success adds to the tax base and translates into improved services for all. One of the DDOT's recently completed major construction projects is the upgrade of the New York Avenue Gateway to Washington, D.C.

DDOT continues to work on the New York Avenue Corridor Study that is intended to resolve current and future transportation needs of the Corridor from the Gateway at the intersection of New York Avenue and the Baltimore-Washington Parkway to the new Convention Center. The objective is to attract technology and other businesses to the Corridor and to provide a magnificent entryway for visitors to the nation's capital. DDOT has also begun the planning and design process to upgrade the South Capitol Avenue Gateway to Washington, D.C., and to begin the process of revitalization in this area that has long been neglected. DDOT is pursuing the "Anacostia Starter Line", one of the five new light-rail projects, which would begin in some of Washington, D.C.'s poorest neighborhoods in Southeast, cross the Anacostia River, and connect those residents with jobs and activities along the Southwest waterfront. The District and WMATA are currently developing the Anacostia Light Rail Demonstration project, to serve the Anacostia area in Southeast, D.C. The project, 2.7 miles of new track and six new stations, is scheduled to begin service in the fall of 2006. Other projects include Wards 3 and 4 Roadway Improvement, Woodley Park Street Lights upgrade, Mt. Pleasant Street Lights upgrade, Thomas Circle Restoration, and F Street and LeDroit Park improvements.

DDOT has created a Neighborhood Services Initiative, which is a partnership between the community and various District agencies. Under this initiative, the agencies work together to identify, prioritize and solve recurring neighborhood problems. Agencies will also work to improve their own services and publicize and adhere to schedules. The agencies currently in the Initiative are: Department of Public Works; Department of Transportation; Fire/Emergency Medical Services; Metropolitan Police Department; Department of Consumer & Regulatory Affairs; Department of Housing and Community Development; Department of Parks and Recreation; Department of Health; Office of Planning, and; the Office of the People's Counsel. One Neighborhood Services Coordinator works in each Ward to coordinate activities requiring action from multiple agencies. The Coordinators help to solve recurring problems in each Ward, and to act as the contact between the District Government and the community.

Neighborhood Revitalization

Washington, D.C. continues to consolidate its position as the world's capital for finance, technology, government and history. The city has become a vibrant and living community that includes world class arts, sports, entertainment and dining facilities. It is not just another place to stop, but a place to stay awhile, to live in, to play and to create. In December 2003, The Mayor announced his goal to attract 100,000 new residents to Washington, D.C. within 10 years.

The Georgetown Project (Project) was a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority and DDOT. It created a major upgrade of Georgetown's underground utility infrastructure and streetscape. The Project began in October 2001 and modernized the utility system to meet present and future growth in demand. Georgetown had some of the oldest underground infrastructure in Washington, D.C., and various utility and service disruptions required this coordinated effort to improve the infrastructure and reduce disruptions. The Project included over $7 million in streetscape renovations, the installation of street lights, benches and sidewalks, and was completed on schedule in July 2005.

In October 2004, the District announced that Target signed a purchase agreement to build its first store in the District on a site in Columbia Heights, at 14th Street and Park Road, N.W. The land is slated to include more than 475,000 square feet of retail space, including the Target store and Bed, Bath & Beyond. In December 2004, the Tivoli Theatre re-opened in the same neighborhood. The Theater and Target are both expected to be catalysts for further development. The National Capital Revitalization Corporation, (NCRC) has recently approved the issuance of tax-exempt bonds to finance the construction of the D.C. USA parking garage in Columbia Heights. It is expected that Target and other new facilities will bring 500 temporary construction jobs, 1,000 direct permanent jobs and $240 million in net direct new taxes over the next 20-years.

NCRC is using a new approach to develop a comprehensive community benefits package. It has also facilitated an agreement that includes housing, business and educational opportunities. The future home of Radio One, Inc. is a proposed project that would locate the headquarters of a corporation that was started in the city more than 20 years ago, to the heart of the Shaw neighborhood, at 7th and S Streets, N.W. The project will include 76,000 sq. ft. of commercial space, 202 residential units, 25% affordable housing, a 250-space below-grade parking garage and 21,000 sq. ft. of retail space.

For the first time in 15 years, new commercial construction is taking place in historic Anacostia. The Anacostia Gateway office building, a $19 million development, will offer 14,000 sq. ft. of retail space, 49,000 sq. ft. of Class A office space, and 112 sub-grade parking spaces. The building is located at the corner of Martin Luther King, Jr. Avenue and Good Hope Road, S.E.

The Freedom Forum, formerly based in Rosslyn, Virginia, purchased the former site of the District's Department of Employment Services (DOES), which was located at 6th & Pennsylvania Avenue, N.W. In addition to its main offices, the Freedom Forum will relocate its Newseum, an interactive news museum, with approximately 215,000-square feet, and develop both an additional 30,000 square feet of retail space and approximately 100 condominium units. The approximately 531,000-square foot development is estimated to cost about $400 million. In October 2002, the Freedom Foundation and the Newseum formally presented their design for the new building. Demolition of the old DOES building has occurred and it is expected that the new Newseum will be completed and opened to the public in 2007.

DOES operations have been temporarily relocated to another area of the city that is targeted for development. While the new headquarters is being developed and constructed, DOES staff is housed in a newly renovated warehouse near the intersection of New York and Florida Avenues, N.E. The District's Department of Motor Vehicles will also be relocated away from the downtown business district to make its primary services more accessible to citizens. These moves are expected to spur additional development at the new sites, similar to the development that began after the District built the Frank D. Reeves Municipal Center at the corner of 14th and U Streets, N.W. in 1986.

The District's Housing Finance Agency (HFA) financed 7,623 multi-family units, and provided $133.5 million in financing for those units. In addition to new housing, the District of Columbia Housing Authority (DCHA) operates 54 apartment communities, with 8,013 units of public housing, with a 100% Housing Choice Voucher Program utilization rate, and a 99% public housing occupancy rate in FY 2004. The DCHA HOPE VI Program has been remarkably successful in the city, where DCHA is the 4th largest recipient of HOPE VI funding nationally, having received $140.9 million, and is recognized as a national leader in the design and execution of innovative and successful HOPE VI projects.

The federal government has also shown renewed interest in the District as the place for consolidating agencies, functions and staff. The General Services Administration broke ground for the construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) new headquarters building in April 2002, with excavation and on-site construction beginning in 2004. The decision to locate the 422,000-square foot building at the intersection of First Street and New York Avenues, N.E. helped the District obtain matching Federal and private commitments of $50 million to pay for the Metro rail station near that location, which opened in November 2004. Construction of the ATF headquarters is projected for completion by late-2006. The new ATF headquarters has been designed to allow for the maximum amount of natural light through the use of atriums and gardens. The design engages the perimeter street edge with retail shops and a generous amount of landscaping to provide an environmentally friendly and appealing visual amenity to the community.

In 2005, the federal government announced a proposal to transfer approximately 200 acres of federal land to the District. This unprecedented transfer of land will simultaneously create economic opportunity, and improve the lives of many D.C. residents. The proposal, which must be approved by Congress, would allow the District to push forward several critical initiatives, including a new state of the art hospital in Ward 6, recreational opportunities at Poplar Point, east of the Anacostia River, restoration of the old Naval Hospital in S.E., and better control of land near the Convention Center. As part of the agreement, the District will turn over five abandoned buildings on the St. Elizabeth Hospital's campus to the federal government. In addition, the District will turn over administrative control of a handful of smaller parcels, most of which are already being used as parkland and will not be altered in any way.

Also in 2005, the Pentagon's Base Realignment and Closure Commission voted to close the Walter Reed Army Hospital (Walter Reed). The timetable for the closure of Walter Reed, and future uses of the property have not yet been decided, but the District is encouraging the federal government to move quickly to turn the property over for some productive uses that will benefit the neighborhood, the city and the region. The Walter Reed site encompasses a 73-building complex over 113-acres. Walter Reed has been in operation on Georgia Avenue in N.W. Washington, D.C. since 1909. This type of federal action transfers more responsibility and control to the District and serves to strengthen Home Rule.

The District government has used a number of arrangements to fund other economic development ventures, including business improvement districts (BID). The BID legislation permits businesses to request and accept special assessments. In other words, businesses agree to tax themselves. The money collected is used exclusively to fund improvements in the designated area around the businesses. The funds are used specifically to enhance the environment occupied by privately owned companies and firms, making them more attractive for customers and clients. There are five major BIDs: (1) Downtown; (2) Golden Triangle; (3) Georgetown; (4) Capitol Hill; and (5) the Adams Morgan Partnership.

Current development projects in retail, entertainment, tourism, and housing support continuing growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar developments are appearing in surrounding neighborhoods. The long anticipated Pavilion at the Gallery Place Development which opened in 2004 is thriving. This development includes street-level retail, restaurants, movie theaters and commercial office space. Gallery place is located adjacent to the MCI Center, soon to be renamed the Verizon Center, and has built upon the enthusiasm and excitement that was generated with the opening of the MCI Center in 1997. It is hoped that this is a sign of the renewed interest of retailers to locate or expand their operations in Washington, D.C.'s historic retail-oriented downtown.

Both a Best Buy and Container Store have recently opened in Tenleytown, N.W. Negotiations are underway to develop a high-quality shopping center at Skyland in S.E., and to open a Costco store at Fort Lincoln, in Northeast, within a shopping center to be located there. Fort Lincoln is in Ward 5, where a 209 unit townhouse community is currently under development. A parking garage at Rhode Island Place is also being planned to support mixed-use retail and residential development in Ward 5. The NCRC has approved the issuance of tax-exempt bonds to finance the construction of the D.C. USA parking garage, and the funding of a small business assistance program, both in the Columbia Heights neighborhood. The Fort Lincoln Shopping Center, the Skyland Shopping Center and the Ward 5 parking garage will be funded with Tax Increment Financing arrangements.

Federal Express opened its Washington, D.C. operations facility, at 1501 Eckington, Place, N.E., well before the current increase in commercial and office space in that neighborhood. This development encouraged other companies to locate in the area, such as the renovation of the old Peoples Drugstore warehouse, and XM Satellite Radio, which located its headquarters in a converted printing company building, in the New York Avenue Technology Corridor. Other telecommunications companies are also being encouraged to consider establishing business operations, such as data warehouses, nearby. The District, in partnership with the federal government and businesses in the New York Avenue Technology Corridor, funded the construction of the new in-fill Metrorail station on the Red Line, which is the busiest line on the existing 103-mile system. This was the first in-fill subway station to be added to the existing 103-mile Metrorail system. This station was completed and opened for operation on November 20, 2004, and the Washington Metropolitan Area Transit Authority (WMATA) is in the process of acquiring new railcars and modernizing many of its current railcars to accommodate this new station and the increased traffic throughout the system. WMATA also opened two new subway stations in December 2004 on the Blue Line in Prince George's County, terminating in Largo, near the Washington Redskins FedEx Field Stadium.

New residential construction is occurring in all sections of Washington, D.C., and range from single-family dwellings, to townhouses, to apartment buildings and condominiums. The District's Housing Finance Agency helped finance a total of 7,623 housing units in fiscal year 2005 (Exhibit S-5A). The Tivoli Theater Complex in the Columbia Heights section of 14th Street, N.W. has been completed. This development is near a recently opened Metrorail station and will include a Giant Food Supermarket and new townhouses. These various ongoing efforts are creating a more vibrant downtown residential neighborhood, in addition to expanding residential development throughout Washington, D.C. The rapid reconstruction and renovation of vacant warehouses, commercial buildings and residential structures, in addition to entirely new construction in all areas of Washington, D.C., provides incentives and a very strong marketing tool for attracting new residents and workers to the Nation's Capital.

The District's Office of Planning continues working on projects that impact just about every area and neighborhood of Washington, D.C. Among these are: (1) Anacostia Transit Strategic Investment Plan; (2) the Anacostia Waterfront Initiative; (3) the Convention Center Area Strategic Development Plan; (4) the Downtown Action Agenda Project; (5) the East of the River Project; (6) the Georgia Avenue Revitalization Project; (7) the H Street Corridor Revitalization Project; (8) the McMillan Reservoir Project; (9) North of Massachusetts Avenue (NoMA) Project; (10) Reservation 13 (on the grounds of the old D.C. General Hospital) Draft Master Plan; (11) the Takoma Central District Plan Project; (12) the Uptown Destination District Strategic Development Plan, and (13) the Upper Wisconsin Avenue Corridor Study Strategic Framework Plan. Additional projects are also in early stages of internal development within the Office of Planning.

Economic Tax Incentives

The already popular tourism industry and other projects, such as those discussed previously, partially address the District's need to build a broader economic base. Both the U.S. Congress and the D.C. Council have enacted legislation and are taking other actions that aim to expand the District's permanent tax base, by making all areas of the District economically attractive to both prospective residents and new business interests. The District has created two annual sales tax holidays and each normally run for about one-week. The first tax holiday is in August, to assist families with their Back-to-School purchases, and the second one starts the day after Thanksgiving. In calendar year 2005, the sales tax holidays ran from August 6 through August 14, and from November 25 through December 4. These Sales Tax Holidays are available for use by both residents and non-residents.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zones. The zones consist of the previously existing enterprise zone communities plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to $15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. The federal Homebuyer Tax Credit, which provides a maximum $5,000 federal income tax credit for first-time buyers of principal residences, was also included in the original Taxpayer Relief Act of 1997 and was recently extended for purchases closed through December 31, 2006, as well as for the business tax benefits.

The Tax Parity Act of 1999 created a schedule to lower District taxes on both income and real property by the end of FY 2004. The new tax rates are expected to make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Tax Parity Act of 1999 streamlined the tax code and eliminated duplications and discrepancies. During the same period, real property tax assessments have continued to increase and collections of both current and delinquent taxes have increased. In FY 2002, the District delayed scheduled reductions to income tax rates as a result of spending pressures related to the D.C. Public School System and projected Medicaid shortfalls. Some of the delayed reductions have been enacted, but the Tax Parity Act of 1999 has not yet taken full effect. At the same time, the District moved from a property assessment schedule of every three years, and one-third of city properties every year, to an annual assessment of every property in the city.

Additional business incentive legislation is awaiting final approval by the District and the U.S. Congress. The E-Conomy Transformation Act of 2000 encourages new high technology firms to locate their operations in the District while encouraging the hiring of Washington, D.C. residents. Brownfields redevelopment program legislation, which has proven successful in other jurisdictions, limits liability for certain environmental contamination and establishes funding mechanisms for those willing to develop Brownfields sites. Brownfields sites are abandoned buildings and properties that are contaminated (or perceived to be contaminated), thus complicating their potential for reuse. The cleanup of such sites, and the removal of liabilities that could arise from their reuse, allows Brownfields sites to become productive again. These sites are to be used for economic development activities, the creation of new and affordable housing, or for urban gardens, parks and recreation areas.

The Office of the Chief Financial Officer uses the Tax Increment Financing (TIF) Program to encourage new economic development projects that may not occur without the TIF Program. TIFs are supported by the collection of increased sales and use and real property taxes in the areas associated with each TIF project. Once the TIF bonds are repaid, these tax collections will go into the District's General Fund. Two TIF supported projects, the Mandarin Hotel on the Southwest Waterfront and Gallery Place in Chinatown, adjacent to the MCI Center, opened for business in FY 2004.

Although there was no TIF activity in FY 2005, TIFs are being considered for the area surrounding the projected new baseball stadium in Southeast, and in the 14th Street corridor, where a Target store is currently being planned. TIF agreements enable the District to influence certain practices and conditions of each operation, including the percentage of Washington, D.C. residents to be employed both during and after construction. According to the District's Office of Tax and Revenue, approximately $13 million has been collected from businesses in these areas between 1998 and September 30, 2005. Buoyed by these successes and the New York Avenue technology corridor, the District is actively proceeding with plans to restructure the economic base of other underserved neighborhoods. Local redevelopment options for both residential and retail investments are under discussion for a variety of sites outside of the central business area.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity, having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined in accordance with GAAP, and the number of funds established within each type is guided by the "minimum number of funds principle" and sound financial administration. Specialized accounting and reporting principles

and practices apply to governmental funds. Proprietary, component units and pension trust funds are accounted for in the same manner as similar business enterprises or non-business organizations.

Internal Control

Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The internal controls are designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the application of estimates and judgments by management.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the D.C. Council and the U.S. Congress. A project-length financial plan is adopted for Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

By law, the budgetary general fund includes both the general fund and the federal and private resources fund. However, for reporting purposes, the federal and private resources fund is reported separately as a special revenue fund. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis.

- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis for reporting purposes. Such activities primarily include the following as detailed in Exhibit 2-d:
  - Fund balance released from restrictions
  - Proceeds from debt restructuring
  - Accounts receivable allowance
  - Operating cost from enterprise funds

The "*District Anti-Deficiency Act of 2002*" (the Act) became effective on April 4, 2003. The Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the occurrence of overspending, corrective action plans. Spending projections are required to be submitted to the agency head and the agency chief financial officer. Summarized spending projections must be submitted to the District's CFO no more than 30-days after the end of each month.

The District's CFO is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency's actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO's observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

Congressional mandate required the District to accumulate and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by the end of FY 2004. An additional contingency cash reserve was also established, which equaled 3% of the total budget allocated for operating expenditures. The District met both of these requirements. Beginning in FY 2005, the District is only required to maintain a combined balance equal to 6%, in an emergency cash reserve equaling 2% and a contingency cash reserve of 4%, of the allocated operating expenditures less debt service for each reserve.

Cash Management

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are essentially guaranteed by the federal government, such as

mutual funds consisting of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Such deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except for health care and life insurance benefits for employees. A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this amount is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected funds when they occur. The District is self-insured for unemployment and disability, also known as worker's compensation, as well as for general liability.

Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. Government Accountability Office. The financial statements must be prepared in conformity with GAAP. The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) spells out these requirements, and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending Federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

The Office of Internal Audit and Internal Security, Office of the Chief Financial Officer, has completed all required A-133 Single Audits through fiscal year 2004 and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audits are presented in a separate report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended September 30, 2004. The District has received this award for twenty-one of the last twenty-three years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

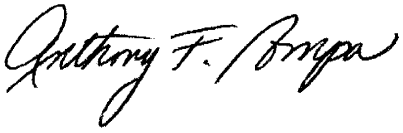
GFOA also gave an award to the District for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for fiscal year ended September 30, 2004 for the second consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that is intended to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, and the use of graphics and photos is increased.

Both awards are valid for one fiscal year. The District believes that the FY 2005 CAFR continues to conform to the Certificate of Achievement Program requirements and it will be submitted to the GFOA for review and approval. The District also expects that the FY 2005 PAFR, which will be prepared within the next month, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA for review and approval.

Acknowledgments

I would like to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year, especially in the past four months. I greatly appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my staff, *Michael Covington, Grace Crocker, Larry Daniels, Chris Lacour, Bill Slack,* and their respective team members. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, *BDO Seidman, LLP,* who was assisted by *Bert Smith and Company,* and *Thompson, Cobb, Bazilio and Associates* for their efforts throughout the audit engagement.

Respectfully submitted,



Anthony F. Pompa
Deputy Chief Financial Officer
Financial Operations and Systems

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Organizational Chart

[1] ELECTED OFFICIAL
[2] ESTABLISHED BY P.L. 104-8
[3] NOT SUBJECTED TO MAYOR'S REORGANIZATION AUTHORITY
[4] INDEPENDENT AGENCY

LEGISLATIVE BRANCH [3]

COUNCIL OF THE DISTRICT OF COLUMBIA [1]

1 Chairperson
4 At-Large Members
8 Ward Members

D.C. AUDITOR

ADVISORY NEIGHBORHOOD COMMISSIONS [1]

EXECUTIVE BRANCH

MAYOR [1]

EXECUTIVE OFFICE OF THE MAYOR
Offices of the Chief of Staff
Communications
Community Affairs
Community Outreach
Policy & Legislative Affairs
Secretary of the District of Columbia

ATTORNEY GENERAL

INSPECTOR GENERAL [4]

CHIEF FINANCIAL OFFICER [2]

Agencies & Offices
Budget & Planning
D.C. Lottery
Finance & Treasury
Financial Operations & Systems
Revenue Analysis
Tax & Revenue

CITY ADMINISTRATOR

Deputy Mayor
Operations

Agencies & Offices
Chief Technology Officer
Contracting & Procurement
Motor Vehicles
Personnel
Property Management
Public Works
Small & Local Business Development
Transportation

Deputy Mayor
Planning and Economic Development

Agencies & Offices
Arts & Humanities
Consumer & Regulatory Affairs
Employment Services
Housing & Community Development
Insurance, Securities and Banking
Planning

Deputy Mayor
Children, Youth, Families and Elders

Agencies & Offices
Aging
Child & Family Services
Health & Human Services
Mental Health
Parks and Recreation
Public Library
Youth Rehabilitation Services

Deputy Mayor
Public Safety and Justice

Agencies & Offices
Chief Medical Examiner
Corrections
Emergency Management Agency
Fire & Emergency Medical Services
Justice Grants Administration
Metropolitan Police Department
Unified Communications

INDEPENDENT AGENCIES
Anacostia Waterfront Corporation
Board of Library Trustees
Employee Appeals
Housing Finance Agency
Peoples Counsel
Pretrial Services
Public Defenders Services
Public Employee Relations Board
Retirement Board
Sports & Entertainment Commission
Tobacco Settlement Financing Corporation
University of the District of Columbia
Washington Convention Center Authority
Water & Sewer Authority

CHARTER INDEPENDENT AGENCIES
Armory Board
Board of Education/Public Schools
Board of Elections & Ethics
Public Service Commission
Zoning Commission

REGIONAL BODIES
Metropolitan Washington Council of Governments
National Capital Planning Commission
Washington Metropolitan Area Transit Authority
Washington Metropolitan Area Transit Commission
Washington Metropolitan Airports Authority

DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2005

Name	Position	First Elected or Appointed	Term Expires
	Chief Executive Officer		
Anthony A. Williams	Mayor	1999	2007
	Council		
Linda W. Cropp	Chairman	1991	2007
Kwame R. Brown	At Large	2005	2009
David A. Catania	At Large	1997	2007
Phil Mendelson	At Large	1999	2007
Carol Schwartz	At Large	1997	2009
Jim Graham	Ward 1	1999	2007
Jack Evans	Ward 2	1991	2009
Kathleen Patterson	Ward 3	1995	2007
Adrian Fenty	Ward 4	2001	2009
Vincent Orange	Ward 5	1999	2007
Sharon Ambrose	Ward 6	1997	2007
Vincent C. Gray	Ward 7	2005	2009
Marion Barry Jr.	Ward 8	2005	2009
	House of Representatives		
Eleanor Holmes Norton	Delegate	1991	2007
	Executive Officers		
Robert C. Bobb	City Administrator		
Natwar M. Gandhi	Chief Financial Officer		
Robert Spagnoletti	Attorney General		
Alfreda Davis	Chief of Staff		
Stanley Jackson	Deputy Mayor for Planning and Economic Development		
Brenda Donald Walker	Deputy Mayor for Children, Youth, Families and Elders		
Edward D. Reiskin	Deputy Mayor for Public Safety and Justice		
Herbert R. Tillery	Deputy Mayor for Operations		
Sherryl Hobbs Newman	Secretary of the District of Columbia		
Dr. Clifford B. Janey	Superintendent for DC Public Schools		
Charles J. Willoughby	Inspector General		
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems		
Bert Molina	Deputy CFO, Budget and Planning		
Lasana K. Mack	Acting Deputy CFO, Finance and Treasury		
Dr. Julia Friedman	Deputy CFO, Research and Analysis		
Ben Lorigo	Interim Deputy CFO, Tax and Revenue		
Steward D. Beckham	Associate CFO, Public Safety and Justice		
Pamela D. Graham	Associate CFO, Government Services		
Barbara D. Jumper	Associate CFO, Governmental Operations		
Henry W. Mosley	Associate CFO, Economic Development and Regulation		
Deloras A. Shepherd	Associate CFO, Human Support Services		
John D. Musso	Agency CFO, D.C. Public Schools		
Jeanette A. Michael	Executive Director, D.C. Lottery		

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

INDEPENDENT AUDITORS' REPORT

BDO

BDO Seidman, LLP
Accountants and Consultants

7101 Wisconsin Ave, Suite 900
Bethesda, Maryland 20814
Telephone: (301) 654-4900
Fax: (301) 654-3567

Independent Auditors' Report

To the Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** (the District), as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the District as of and for the year ended September 30, 2004, were audited by other auditors whose report dated January 24, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis on pages 21 through 35 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BDO

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the other supplementary information presented in the financial section as listed in the table of contents, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BDO Seidman, LLP

Bethesda, Maryland
January 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

(Dollar amounts expressed in thousands)

This Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the District of Columbia (the District) for the fiscal year ended September 30, 2005. This discussion and analysis should be read in conjunction with the basic financial statements and the notes to the basic financial statements, which follow this discussion on pages 37 through 94.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components:

(1) *Government-Wide Financial Statements* - Exhibit 1-a, *Statement of Net Assets,* and Exhibit 1-b, *Statement of Activities* on pages 38 and 39 respectively, present information about the financial activities of the District as a whole. These two statements provide an overall view of the District's finances.

(2) *Governmental Fund Financial Statements* - Exhibit 2-a, *Balance Sheet – Governmental Funds,* Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds,* Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 40, 41, 42, and 43, respectively, show the District's financial position at the end of the fiscal year and how governmental activities were financed during the current year. The fund financial statements focus on the most significant District funds and present operations in more detail. Other fund financial statements provide details for enterprise activities. The fiduciary funds statement reports activities for which the District acts exclusively as a trustee or agent for the benefit of entities or individuals external to the government.

(3) *Notes To The Basic Financial Statements* - Present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, and can be found on pages 51 through 94.

FINANCIAL HIGHLIGHTS

- In the government-wide analysis, assets exceeded liabilities, resulting in total net assets of $2,124,708. The total net assets consisted of *net assets invested in capital assets, net of related debt* of $ 1,085,914 ; *restricted net assets* of $ 1,252,914 ; and negative *unrestricted net assets* of $ (214,120). The total government-wide net assets included $1,750,664 generated by governmental activities and $374,044 generated by business-type activities.

- There was an increase of $ 571,830 over the previous year in the government-wide total net assets. This increase is attributable to a $ 615,351 increase in total assets, which was offset by an increase in total liabilities of $ 43,521 . The increased collection of taxes and other revenues accounted for the majority of this increase. (see Table 1, *Net Assets as of September 30, 2005*)

- The governmental funds reported a combined fund balance of $ 1,608,963 which was an increase of $ 384,175 over the previous year. The fund balance of the general fund was $ 1,584,683 or 98.5% of the combined fund balances, and represented an increase of $ 369,668 over the previous year. This was due mainly to increased collections of sales and use, real property and income and franchise taxes.

- Within the general fund's $1,584,683 fund balance, $1,110,770 is reserved or restricted for specific purposes. $253,437 is legally set aside for emergencies and contingencies, $253,548 for bond escrow, $199,000 for PAYGO Capital and $138,000 for the future funding of other postemployment benefits, with $266,785 reserved or restricted for other purposes. Of the $473,913 unreserved general fund's fund balance, $298,449 is designated for other post employment benefits and other special purposes, with $175,464 undesignated and available for use.

- Total long-term debt related to notes and bonds increased by $ 202,526 , or 5.00%. There was an increase of $ 213,265 in general obligation debt and other debt decreased by $ (10,739). (Table 3, *Outstanding Bonds and Notes at September 30, 2005*, page 31).

NEW GASB PRONOUNCEMENTS

GASB Statement No. 45

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 45 does not become effective for the District until the period that begins after December 15, 2006, the District's FY 2008 CAFR. The District has begun the analysis of this Statement, and plans to implement it on or before the effective date.

GASB Statement No. 46

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Legislation.* This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to the government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation, or if the government has other cause for consideration.

GASB Statement No. 46 does not become effective for the District until the period that begins after June 25, 2005, the District's FY 2006. The District was in compliance with this Statement prior to its effective date, beginning in fiscal year 2002, and no further changes are required, or contemplated, by the District.

GASB Statement No. 47

In June 2005, GASB issued Statement No 47, *Standards of Accounting and Financial Reporting for Termination Benefits.* This Statement requires that in the period in which an employer becomes obligated for termination benefits, and in any additional period in which employees are required to render future service in order to receive involuntary termination benefits, the employer should disclose the following: 1) a description of the termination benefit arrangements, 2) the cost of the termination benefits, 3) a disclosure of whether termination benefits are measured at the discounted present value, and, 4) if the expected benefits are not estimable, the employer should disclose that fact. The provisions of this Statement need not be applied to immaterial items.

GASB Statement No. 47 does not become effective for the District until the period that begins after June 15, 2005, the District's FY 2006. The District has begun the implementation of this Statement.

THE DISTRICT'S FINANCIAL CONDITION

The MD&A guidelines require the District to provide its citizens with an assessment of its financial condition, including the year's operating results, to assist the citizenry in:

- Determining whether the District's overall financial position improved or deteriorated;
- Evaluating whether the District's current-year revenues were sufficient to pay for current-year services;
- Understanding the extent to which the District has invested in capital assets, including roads, bridges, and other infrastructure assets; and
- Making better comparisons between the District and other similar governmental jurisdictions or entities.

The District government's level of financial responsibility and performance can be measured in various ways. Below are some of the indicators of the District's improved financial position:

- The total expenditures for the District were again within budget.
- The General Fund ended the year with a budgetary surplus of $ 446,375 . After deducting the use of fund balance released from restrictions and other adjustments required by generally accepted accounting principles (GAAP), the non-budgetary or GAAP surplus was $ 369,668 .
- The accumulated General Fund fund balance at September 30, 2005 was $ 1,584,683 .
- The required legal debt limitation allows the District to use up to 17.0% of its total revenues for debt service in FY 2005. However, the District's debt service cost was only 7.4% of total revenues, or about 43.7% of the legal limit.
- The District continues to allocate large amounts of funds for infrastructure assets.

This MD&A is not intended to replace the reading of the entire CAFR, especially the basic financial statements and related notes. In addition, it is important to read the information on the District's structural imbalance on page 2 of the Transmittal Letter which summarizes the United States Government Accountability Office's 2003 report "*District of Columbia – Structural Imbalance and Management Issues.*"

Reporting the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, reports all assets and liabilities using the *accrual basis of accounting*. This method is similar to the accounting method used by most private-sector companies. Under this basis of accounting, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District.

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations in the *Statement of Net Assets*. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. This statement distinguishes between governmental activities, business-type activities and component units' activities. The total net assets is the sum of these three components: 1) *net assets invested in capital assets, net of related debt, 2) restricted net assets* and *3) unrestricted net assets.* Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure condition and other non-financial factors must also be considered in assessing the overall financial health of the District.

The *Statement of Activities* presents information showing how the government's net assets changed from the last fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will only result in cash flows in future fiscal periods, (for example, uncollected taxes and earned but unused vacation leave). The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where a fee for services is expected to cover all or most of the costs of operations, including depreciation. Program/functional expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/functional costs, resulting in an increase or decrease in net assets.

Financial Analysis of the Government as a Whole (Government-Wide Financial Statements)

In fiscal year 2005, the combined total net assets increased by $ 571,830 . This increase is the combination of a governmental activities increase of $ 538,766 and a business-type activities increase of $ 33,064 . See Table 2, *Change in Net Assets as of September 30, 2005*, on page 25. The increased collection of taxes and other revenues accounted for the majority of this outcome. More efficient use of resources, including better expenditure management, also contributed to this positive result.

Restricted net assets are assets that are subject to use constraints that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or by enabling legislation. In FY 2005, total restricted net assets increased by $ 156,851 , or 14.31%, consisting of an increase of $ 122,182 , or 15.12%, from governmental activities, and an increase of $ 34,669 , or 12.03% from business-type activities.

The Lottery and Charitable Games Control Board, an enterprise fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal year 2005, the transfer was $71,450, which was a ($2,050) decrease from last year's amount. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 45.

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.

- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

These differences may result in the government-wide statements reflecting negative unrestricted net assets. The negative unrestricted net assets $(214,120) in FY 2005 results mainly from the recording of non-current liabilities such as claims and judgments, compensated absences, accrued interest payable, and other unfunded long-term liabilities. These amounts are not included in the fund financial statements because they are not being paid from current financial resources. Furthermore, the negative net assets balance reflected on the government-wide financial statements does not imply that the District lacks resources to pay its bills in the next year. Rather, it is the result of recording long-term obligations that will be liquidated with resources to be provided in the future. Put simply, future liabilities are reported in the current-year government-wide financial statements without the matching resources which will be required to liquidate them. Those resources will be provided for through appropriations in subsequent periods.

Table 1 - Net Assets as of September 30, 2005

	Governmental activities		Business-type activities		Totals	
	2005	2004	2005	2004 (restated)	2005	2004 (restated)
Current and other assets	$ 2,783,666	2,491,541	$ 453,541	$ 430,972	$ 3,237,207	$ 2,922,513
Capital assets	5,018,939	4,716,538	16,183	17,927	5,035,122	4,734,465
Total assets	7,802,605	7,208,079	469,724	448,899	8,272,329	7,656,978
Long-term liabilities	4,862,030	4,710,163	59,449	66,481	4,921,479	4,776,644
Other liabilities	1,189,911	1,286,018	36,231	41,438	1,226,142	1,327,456
Total Liabilities	6,051,941	5,996,181	95,680	107,919	6,147,621	6,104,100
Net assets:						
Invested in capital assets, net of related debt	1,069,731	774,533	16,183	17,927	1,085,914	792,460
Restricted	930,021	807,839	322,893	288,224	1,252,914	1,096,063
Unrestricted	(249,088)	(370,474)	34,968	34,829	(214,120)	(335,645)
Total net assets	**$ 1,750,664**	**$ 1,211,898**	**$ 374,044**	**$ 340,980**	**$ 2,124,708**	**$ 1,552,878**

Table 2 - Change in Net Assets as of September 30, 2005

	Governmental activities		Business-type activities		Total		
	2005	2004	2005	2004 (restated)	2005	2004 (restated)	Variance
Revenues:							
Program revenues:							
Charges for services	$ 327,162	$ 300,110	$ 267,115	$ 272,040	$ 594,277	$ 572,150	$ 22,127
Operating grants and contributions	2,098,723	2,060,973	16,707	26,588	2,115,430	2,087,561	27,869
Capital grants and contributions	112,704	151,334	-	15,464	112,704	166,798	(54,094)
General revenues:							-
Property taxes	1,150,672	1,017,653	-	-	1,150,672	1,017,653	133,019
Income and franchise taxes	1,472,432	1,299,009			1,472,432	1,299,009	173,423
Sales and use taxes	957,394	828,391	-	-	957,394	828,391	129,003
Other taxes	673,032	651,418	92,985	97,196	766,017	748,614	17,403
Non tax revenues	351,473	355,350	19,567	17,097	371,040	372,447	(1,407)
Total revenues	**7,143,592**	**6,664,238**	**396,374**	**428,385**	**7,539,966**	**7,092,623**	**447,343**
Expenditures:							
Governmental direction and support	641,964	554,614	-	-	641,964	554,614	87,350
Economic development and regulation	283,186	253,311	-	-	283,186	253,311	29,875
Public safety and justice	1,036,120	1,007,755	-	-	1,036,120	1,007,755	28,365
Public education system	1,374,538	1,301,807	-	-	1,374,538	1,301,807	72,731
Human support services	2,663,556	2,537,195	-	-	2,663,556	2,537,195	126,361
Public works	307,247	313,580	-	-	307,247	313,580	(6,333)
Public transportation	167,783	162,602	-	-	167,783	162,602	5,181
Interest on long-term debt	201,882	189,697	-	-	201,882	189,697	12,185
Lottery and games	-	-	164,066	167,938	164,066	167,938	(3,872)
Unemployment compensation	-	-	92,728	113,888	92,728	113,888	(21,160)
Nursing home services	-	-	35,066	33,023	35,066	33,023	2,043
Total expenses	**6,676,276**	**6,320,561**	**291,860**	**314,849**	**6,968,136**	**6,635,410**	**332,726**
Increase in net assets before transfers	**467,316**	**343,677**	**104,514**	**113,536**	**571,830**	**457,213**	**114,617**
Transfer from lottery and games	71,450	73,500	(71,450)	(73,500)	-	-	-
Increase in net assets	538,766	417,177	33,064	40,036	571,830	457,213	114,617
Net assets - Oct 1	1,211,898	794,721	340,980	300,944	1,552,878	1,095,665	457,213
Net assets - Sept 30	**$ 1,750,664**	**$ 1,211,898**	**$ 374,044**	**$ 340,980**	**$ 2,124,708**	**$ 1,552,878**	**$ 571,830**

Please refer to Note 1.U – *Reconciliation of Government-Wide and Fund Financial Statements*, on page 62, for additional information on the differences between the two bases of accounting that the District uses in this Report.

Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were presented in Table 2, *Change in Net Assets* as of September 30, 2005 on page 25.

Chart 1 – Revenues by Source – Governmental Activities

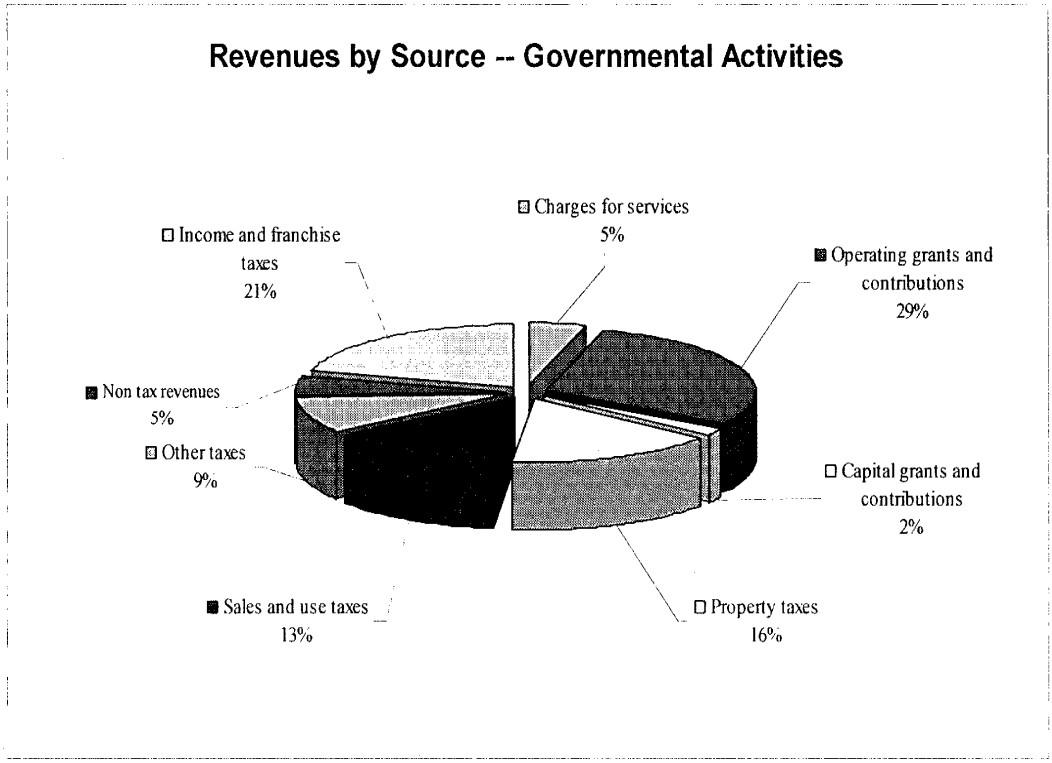
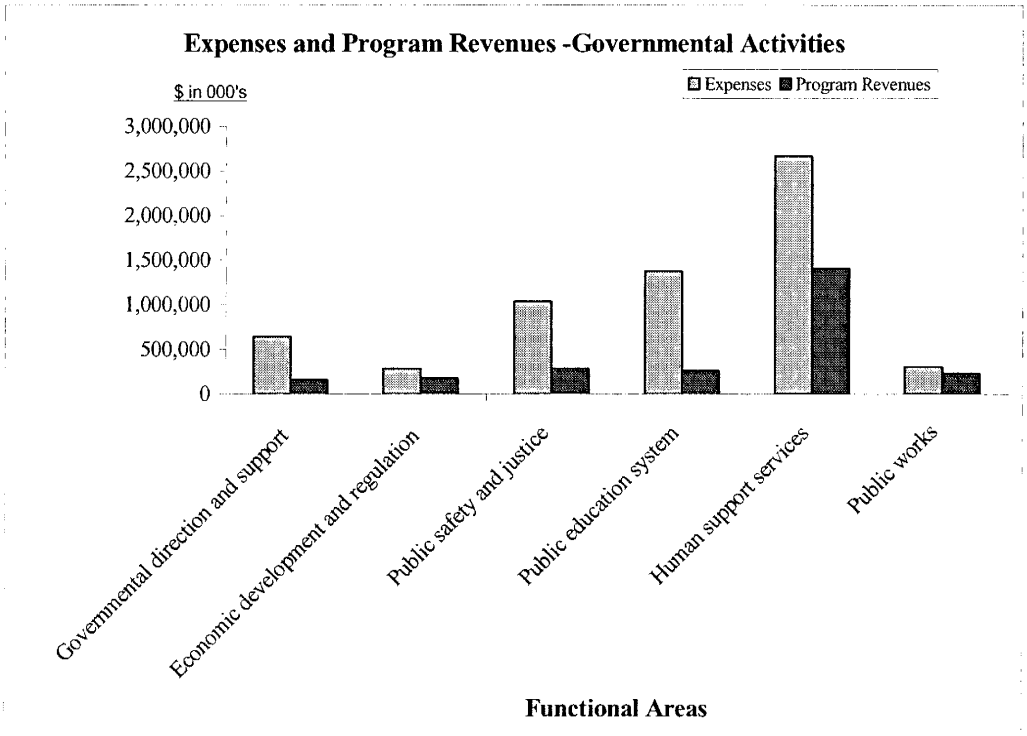

Revenues by Source -- Governmental Activities
Charges for services 5%
Income and franchise taxes 21%
Operating grants and contributions 29%
Non tax revenues 5%
Other taxes 9%
Capital grants and contributions 2%
Sales and use taxes 13%
Property taxes 16%

Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities that are shown are governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services and public works.

Chart 2 - Expenses and Program Revenues – Governmental Activities



REPORTING ON THE DISTRICT'S MOST SIGNIFICANT FUNDS

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. In accordance with District law, bond covenants, and other legal stipulations, funds are established for specific purposes and to report on the activities related to the goods and services that they provide to the general public. The District's funds are presented in three categories or groups – governmental, enterprise, and fiduciary.

The focus of the fund financial statement presentation is on major funds, and not on fund types. Major funds, as required by GAAP, are presented individually; with non-major governmental funds combined in a single column (Detailed information for individual non-major governmental funds can be found in 'Other Supplementary Information', Exhibits B-1, *Combining Balance Sheet* and B-2, *Combining Statement of Revenues and Expenditures and Changes in Fund Balances*, pages 106 and 107). Sources and uses of resources assigned through the financial planning and budgeting process measure the District's ability to fund operations in the short-term.

Governmental Funds

The focus of the District's governmental funds provides information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category, which are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds are reported using the *modified accrual basis accounting*, which measures cash and other financial assets that can be readily converted to cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 40 and 41, for more detailed information about these funds.

- **Fund Balances:** The governmental funds reported a combined fund balance of $ 1,608,963 . The components of this combined fund balance are as follows:

  - General Fund - $ 1,584,683 , an increase of $ 369,668 over the previous year.
  - Federal and private resources - $ 117,947 , a decrease of $ (21,660) over the previous year.
  - General capital improvements – $ (246,362), a decrease in the deficit of $ 3,790 over the previous year.
  - Nonmajor governmental funds - $ 152,695 , an increase of $ 32,377 over the previous year.

- **Revenues:** The collection of taxes and other revenues continued to increase in FY 2005. Total governmental funds revenues increased by $476,048 in FY 2005. These had the same underlying economic cause: the strong growth in the Washington, D.C. economy and real estate market, which has resulted in increased collections of property taxes, income and franchise taxes, and sales and use taxes. Some of the gains came from the increased unit sales of single family homes and condominiums at higher sale and resale values. Commercial retail and office space growth continued, as vacancy rates declined. Other factors were also at work, for example the higher level of federal spending on homeland security has had a positive impact on demand for commercial real estate in Washington, D.C.

  On the residential side, longer commuting times, for non-resident employees, has made Washington, D.C. a more attractive place to live for many people. Individual income tax revenue continues to benefit from the growth in the wages and salaries of Washington, D.C. residents. The increase in the sales and use tax was due to increased retail and hospitality sales, a result of increased individual income and convention and visitor growth.

  Governmental fund revenues increased again primarily because the District collected more in taxes and other revenues. The revenue sources that contributed to most of the increase in general fund revenues are as follows:

  - Income and franchise taxes increased by $173,423.
  - Sales and use taxes increased by $129,003.
  - Property taxes increased by $120,245.
  - Investment earnings increased by $23,600.

Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 41, for more detailed information.

- **Expenditures:** The District increased expenditures for FY 2005 in most of its program/functional areas for a total increase of $343,884 over FY 2004. The expenditures in the Program/functional areas were led by an increase of $107,159 for governmental direction and support, $94,202 for human support services, $56,319 for the public education system, $50,394 for public safety and justice, and $31,115 for economic development and regulation. The areas that experienced the largest decrease in expenditures was for capital outlay, which decreased by $(51,560).

  Governmental direction and support variances were primarily caused by increased spending for technology improvements, such as, E-mail, the D.C. Wide Area Network, application support, and information technology security, the District-wide telephone support, the Office of Taxes and Revenue compliance initiative, pay raises and the purchase of additional equipment to support the above initiatives. Human support services variances were caused primarily by continued strong demand by Washington, D.C. residents for general health care, medical, mental health and child and family services, funded by both the District and the federal government, especially Medicaid and Medicaid. As a large urban jurisdiction, the District supports a significant number of citizens who are either unemployed, or underemployed, many of whom are also without medical insurance coverage. The increase in spending by public education services was primarily the result of increases in spending in support of Public Charter Schools, which continues to show increases in both the number of charter schools and student enrollment.

  The District spent $ 578,088 on general capital improvements which exceeded the general capital improvements revenues of $ 150,379 by $ (427,709) resulting in the deficiency shown. The District invests more in capital improvements each year, due to need, rather than the available current year revenues before considering current year bond proceeds. This deficiency is subsequently financed through the use of bond proceeds. The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and to attract new residents and businesses. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 41, for more detailed information.

  Listed below are the six major infrastructure projects undertaken in FY 2005, (by costs incurred):

  1) Pavement restoration, Citywide - $9,962
  2) Barney Circle, asset preservation - $9,072
  3) Rehabilitation of North Capital Street, Michigan Avenue to Buchanan Streets - $6,952
  4) Traffic Signal Maintenance - $5,009
  5) Rehabilitation of Western Avenue - $3,008
  6) Reconfiguration of Thomas Circle - $2,505

The net change in the general capital improvements fund balance for fiscal year 2005 was an increase of $ 3,790 . This is after other financing sources of $ 431,499 were applied to the $ (427,709) deficit mentioned above.

It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to an estimated amount budgeted on an annual basis. In practice, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The general fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximizes the pool of potential investors for the District's debt issuances. The deficit in this fund will be reduced in subsequent fiscal years by a combination of operating transfers from the general fund, reductions in capital budget authority, lower annual spending in capital programs and an annual allocation of a portion of bond proceeds.

Proprietary Funds

Proprietary funds account for activities of District entities that charge customers a fee for services provided, whether to outside customers or to other entities of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment). There is one non-major proprietary fund, Nursing Home Services, which includes the operations of the Washington Center

for Aging Services, the Washington Center for Aging Services Center Care, and the JB Johnson Nursing Center. See *Chart 3, Expense and Program Revenues – Business-Type Activities* and *Chart 4, Revenues by Source – Business-Type Activities*, page 29, which give a visual comparative presentation of the revenues and expenses of the three funds.

In fiscal year 2005 the total assets for Lottery decreased by $ (8,456), or -10.3%, and increased for Unemployment by $ 22,084 , or 6.3%. The net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds (Nursing Services) were $ 69,464 , $ 20,443 , and $ 1,442 respectively. See Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, on pages 44, 45 and 46 respectively for more detailed information.

Proprietary funds provide goods and services to the general public and use the *full accrual accounting* method for reporting purposes.

The graphic comparisons in Charts 3 and 4 are based on financial information in *Table 2, Change in Net Assets as of September 30, 2005*, page 25.

Chart 3 – Expenses and Program Revenues – Business-type Activities

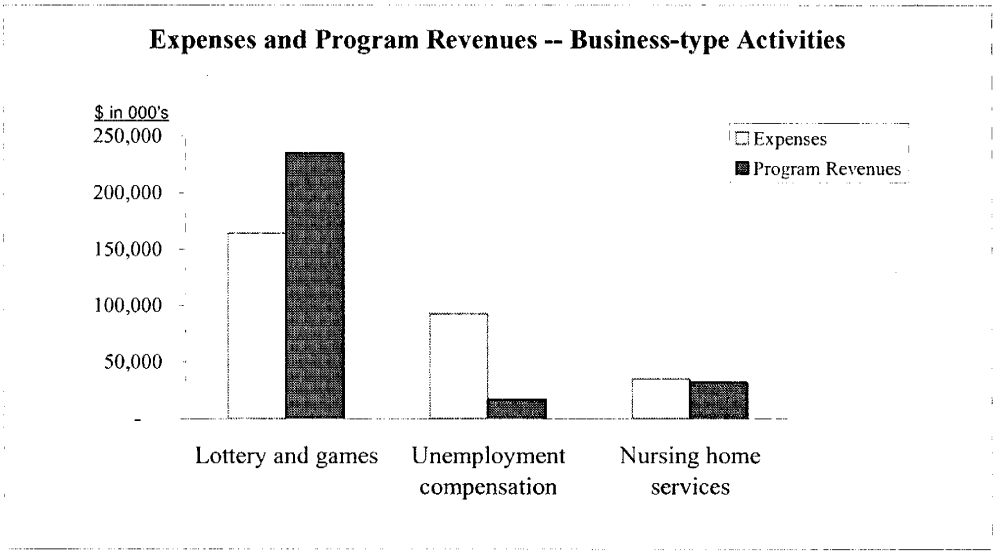
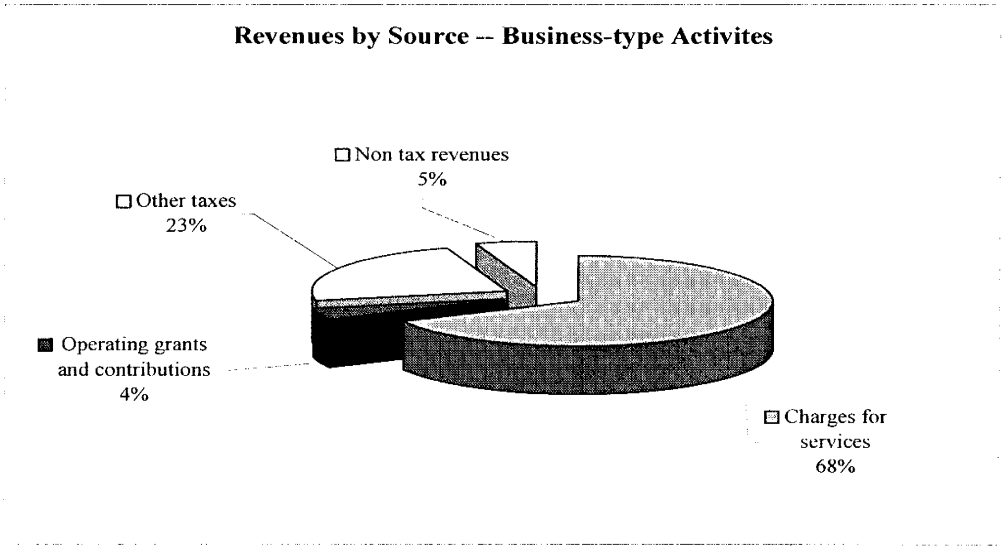


Chart 4 – Revenues by Source – Business-type Activities


Revenues by Source -- Business-type Activites
Non tax revenues 5%
Other taxes 23%
Operating grants and contributions 4%
Charges for services 68%

Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee* or *fiduciary* for its employees' pension plans. All fiduciary activities are reported in the Exhibit 4-a, *Statement of Fiduciary Fund Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 47 and 48, respectively. Please also refer to Exhibit C-1, *Pension Trust Funds – Combining Statement of Fiduciary Net Assets*, Exhibit C-2, Pension Trust Funds – Combining Statement of Changes in Fiduciary Net Assets on pages 110 and 111 respectively, for more details. These activities are excluded from the District's other financial statements because these resources are restricted and are therefore not available for financing other operations.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to D.C. residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund, and was established during FY 2003. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Funds* on page 55.

The net assets for the D.C. Police Officers and Fire Fighters' Retirement Fund, and the D.C. Teachers' Retirement Fund increased by $354,066 and $148,232, respectively. The combined increase is $502,298. Net investment income is the primary source of the increases as both entities continue to benefit from the improved U.S. equity and non-U.S. equity markets, and from prudent investment management.

The Component Units

The District currently has six Component Units: 1) D.C. Water and Sewer Authority (WASA), 2) Washington Convention Center Authority (WCCA), 3) Sports and Entertainment Commission (SEC), 4) Housing Finance Agency (HFA), 5) University of the District of Columbia (UDC) and 6) Anacostia Waterfront Corporation (AWC). Component units are legally separate organizations for which the District is financially accountable. Accountability exists because the Mayor, with the consent of the Council, or other District officials, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, and the University of the District of Columbia. Certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

The six component units had combined total net assets of $ 1,399,713 , representing an increase of $76,673 over FY 2004. Their combined total operating revenues of $ 416,168 and operating expenses of $ 449,871 , resulted in a combined operating loss of $ (33,703) a decrease of $ (1,775) over the FY 2004 results of $(31,928). Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets,* page 49, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Activities,* page 50, for more detailed financial information on the component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and required disbursements. The District issued $250,000 in General Obligation Tax Revenue Anticipation Notes (TRANs) on November 23, 2004, which has been repaid. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred.

Long-Term Debt and Bond Ratings

On November 17, 2004, the District entered into a floating-to-fixed interest rate swap in connection with the issuance of $38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original notional amount of the swap was $38,250. Under the terms of the 2004B Swap, scheduled to terminate in 2020, the District pays fixed rates of 4.598% in 2014, 4.701% in 2015, 4.794% in 2016 and 5.121% in 2020, and receives variable rate payments equal to the MUNI-CPI rate which is the actual rate on the Series 2004B Bonds. The notional value of the 2004B Swap and the principal amount of the associated debt begins to decline in fiscal year 2013.

On December 8, 2004, the District issued its Series 2004A General Obligation Bonds in the aggregate principal amount of $200,870. The proceeds of these bonds were used to finance a portion of the District's fiscal year 2005 capital improvements program. Also, on December 8, 2004, the District issued its Series 2004B General Obligation Bonds in the principal amount of $38,250 and Multimodal General Obligation Bonds, Series 2004C in the aggregate principal amount of $147,250 (sub-Series 2004C-1, Sub-Series 2004C-2 and Sub-Series 2004C-3 in the amounts of $50,000, $48,175 and $49,075 respectively). The proceeds of these bonds were used to finance a portion of the District's fiscal year 2005 capital improvements program. The 2004A Bonds were issued as fixed-rate bonds. The 2004B bonds were issued as CPI Bonds. The Series 2004C Sub-series 2004C-1, Sub-series 2004C-2 and Sub-series 2004C-3, were issued as Auction Rate Securities. The final maturities of the Series 2004A, 2004B and 2004C Bonds are June 1, 2027, 2020, and 2034, respectively.

In June 2005, the District's CFO announced that Fitch Ratings and Standard and Poor's upgraded the District's general obligation bonds to "A" from "A-", and changed the District's rating outlook to "positive" from "stable". In April 2004, Moody's Investors Service upgraded the District's bond rating from "Baa1" to "A2". Each time the District issues new debt, the current debt rating is reviewed for the new issuance. At that time the bond rating agencies assess the District's financial condition, and underlying credit worthiness, and change their rating as warranted. Bond rating agencies will also periodically review the District's overall financial condition for possible adjustments to its bond rating or outlook. In November 2005, Standard & Poor's upgraded the District's general obligation bonds to "A+" from "A", based on its stable economic outlook. Also in November 2005, Moody's Investors Service changed the District's rating outlook to "positive" from "stable".

The significantly improved bond ratings allow the District to either refinance outstanding debt, or to issue new debt, at more favorable rates. In the past, the District's financial and operational difficulties required it to pay substantially higher interest rates on its debt. The District's financial advisors estimate that the effect of the upgrades on the District's recent general obligation bond sale was a savings of approximately 5 basis points, or $200,000 per year. A basis point is one-percent of a percentage point of interest, or 0.01%. Lower interest rates translate into reduced debt service payments, resulting in a greater percentage of the District's budget being available for the services and operations needed for its citizens.

At September 30, 2005 the District had a total of $4,251,279 in general obligation bonds, TIF Bonds and Notes, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 3, *Outstanding Bonds and Notes at September 30, 2005.* This is an increase of $202,526 over last year's figure of $4,048,753. General obligation bonds represent 85.4% of the District's outstanding long-term debt. TIF bonds and notes and QZAB represent 2.8% and Tobacco Bonds Outstanding represent 11.7% its outstanding long-term debt. The District's borrowing has been increasing over the past few years and the proceeds are invested in improvements in infrastructure, such as roads, streets, bridges and buildings. (Please see *Note 8. Long-Term Liabilities*, pages 76-83 for a more detailed discussion).

The general obligation debt per capita (D.C. resident) as of September 30, 2005 was $6,598. This is an increase of $429, or 7.0% over the revised amount of $6,169 per capita on September 30, 2004, which was initially reported as $6,177. The increase is due to the District's issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for the District. Each year, after the 2000 Census, and until the 2010 Census, all previously estimated population figures are adjusted. As a result, the debt per capita figure that was given in last year's CAFR will not correspond to the figure given in this year's CAFR. Please refer to Exhibit S-3B, *Ratios of General Bonded Debt Outstanding – Last Ten Years* on page 138.

Table 3 – Outstanding Bonds and Notes at September 30, 2005

Long-Term Debt
($ in thousands)

	2005	2004	Variance
General Obligation Bonds	$ 3,632,198	$ 3,418,933	$ 213,265
TIF Bonds and Notes	117,526	124,009	(6,483)
Qualified Zone Academy Bonds	2,815	3,071	(256)
Tobacco Bonds	498,740	502,740	(4,000)
Total	**$ 4,251,279**	**$ 4,048,753**	**$ 202,526**

Capital Assets

The District reported $ 5,018,939 in governmental activities net capital assets and $ 16,183 in business-type activities net capital assets, for a total of $ 5,035,122 net capital assets at September 30, 2005. These capital assets include, but are not limited to, land, buildings, police and fire equipment, office equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled $220,981 compared to last year's $189,835. The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants or debt. Please see Table 4, *Net Capital Assets*, below for more details.

The total capital assets increased by $ 300,658 or 6.4%, over the capital assets reported on September 30, 2004. This increase was made up of an increase in governmental activities capital assets of $ 302,401 or 6.4% and an decrease in capital assets from business-type activities of $ (1,743), or -9.7%. The District's depreciation expense increased by $31,146, or 16.4%, during the year. The total capital assets are increasing because the District is investing more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings. The cost of these assets is being funded primarily by the increase in District revenues and the issuance of debt. Please see Note 5. - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 71-75.

Table 4 – Net Capital Assets as of September 30, 2005

Asset Category	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 220,004	$ 217,941	$ 1,264	$ 1,264	$ 221,268	$ 219,205
Buildings	1,609,435	1,433,957	14,133	13,668	1,623,568	1,447,625
Infrastructure	1,653,759	1,513,991	-	-	1,653,759	1,513,991
Equipment	409,132	231,233	786	2,994	409,918	234,227
Construction in progress	1,126,609	1,319,416	-	-	1,126,609	1,319,416
Total net capital assets	**$ 5,018,939**	**$ 4,716,538**	**$ 16,183**	**$ 17,926**	**$ 5,035,122**	**$ 4,734,464**

REPORTING THE DISTRICT'S BUDGET

The District's budget is subject to revision and/or veto by the United States Congress and the President of the United States. As the budget moves through the federal budgetary process, there may be changes in both the amounts and the purposes. In addition, when the District's CFO prepares revised revenue estimates, the budget submission must be adjusted to conform to those revisions. During the Congressional review of the FY 2005 budget, the CFO's revised estimates caused the District to revise its budget submission, before the budget was finally approved. The District's budget has to be balanced, as required by both U.S. and District Laws.

General Fund Budget

The originally formulated general fund budget estimated total revenues and other sources to be $ 4,500,386 and total expenditures and other uses to be $ 4,498,249 . The expectation was to end the year with a budgetary excess of $ 2,137 . However, the general fund budget was revised, resulting in estimated total revenues and other sources of $ 4,760,597 and total expenditures and other uses of $ 4,622,454 , representing a projected budgetary surplus of $ 138,143 . See Table 5, *Fiscal Year 2005 – General Fund Budgetary Highlights* on page 33 for more details.

Table 5 - Fiscal Year 2005 General Fund Budgetary Highlights

	Budget			Variance
	Original	Revised	Actual	Over(under)
Revenues and Other Sources:				
Property taxes	$ 1,068,108	$ 1,148,310	$ 1,145,796	$ (2,514)
Other taxes	2,634,547	2,786,961	2,906,291	119,330
Charges for services	342,504	338,335	352,427	14,092
Other sources and contributions	217,112	318,110	311,789	(6,321)
All other sources	238,115	168,881	157,166	(11,715)
Total revenues and other sources	4,500,386	4,760,597	4,873,469	112,872
Expenditures and Other Uses:				
Governmental direction and support	315,813	336,147	294,778	(41,369)
Economic development and regulation	241,571	272,688	193,456	(79,232)
Public safety and justice	790,815	820,567	805,471	(15,096)
Public education system	1,067,666	1,045,456	1,018,959	(26,497)
AY06 public education expenditures	-	63,218	63,218	-
Human support services	1,192,756	1,270,178	1,258,537	(11,641)
Public works	327,936	335,888	328,997	(6,891)
Other	561,692	478,312	463,678	(14,634)
Total expenditures and other uses	4,498,249	4,622,454	4,427,094	(195,360)
Excess (deficit) -- budgetary basis	$ 2,137	$ 138,143	$ 446,375	$ 308,232
Nonbudgetary adjustments, net			(76,707)	
Surplus			**$ 369,668**	

General Fund Budgetary Highlights – Original to Revised Budget

The adjustments necessary to bring the expenditure budget into agreement with the revised revenue budget account for the differences between the proposed General Fund budget and the final amended budget. Total estimated revenues were increased by $260,211 and total estimated expenditures were increased by $124,205. The projected General Fund budgetary basis surplus was increased from $2,137 to $138,143, as a result of the revisions. The major changes in the budget are summarized as follows:

Revenues

- Property taxes were increased by $80,202.
- Other taxes were increased by $152,414.
- Other sources and contributions were increased by $100,998.

Expenditures

- Appropriation Year 2006 public education expenditures, necessary to ready the public schools for the new school year which began prior to the District's fiscal year-end expenditures were increased by $63,218.
- Human support services expenditures were increased by $77,422.
- Other, which represents various nonfunctional expenditures on a budgetary basis decreased by $(83,380).

The increase of $80,202 for property taxes was primarily the result of a $69,494 increase for real property. This was due to the continuation of increased values of real property during the year. The increases in real property values have abated somewhat, but are expected to continue through FY 2006. The $152,414 increased projection for other taxes was primarily due to the $124,773 increase in income and franchise taxes. The reasons behind these revised projections for individual income, corporation franchise and unincorporated business taxes were based upon the strong D.C. economy.

The $63,218 AY 2006 Advance for Public Education represents the expenditure of the appropriations for FY 2006 in FY 2005. The FY 2005 D.C. Appropriations Act requires that the advance appropriations be provided on July 1, 2005, based on 10% and 25% of the FY 2006 Proposed Budgets for the D.C. Public Schools and the D.C. Public Charter Schools, respectively. When Congress approves the District's budget for the current fiscal year, it does not know the proposed funding level for the next fiscal year. As such, the advance appropriations are not included in the District's Original Budget. The advance appropriations are not known until July 1, and are then made a part of the District's Revised Budget.

The $77,422 increase for Human Support Services primarily reflects allocations from the District's FY 2005 Operating Cash Reserve, prior-year budget reserves, Contingency Cash Reserve, Paygo Contingency Fund, Non-Departmental Budget, Fund Balance and reprogramming from other areas in the District's Budget. The D.C. Council and Congress approved these allocations to fund spending pressures and policy initiatives under this appropriation title.

The $(83,380) decrease for Other primarily reflects allocations and reprogrammings of $(148,396) from the District's central budgetary accounts (FY 2005 Operating Cash Reserve, Workforce Investment, Paygo Contingency, etc.) to various agencies, which was offset by $65,016 in increases due to the release of fund balance for certain District accounts, including the Baseball Fund and Tax Increment Financing Reserve and supplemental budget authority to cover bond issuance costs.

DEBT ISSUED AFTER SEPTEMBER 30, 2005

Short-Term Debt

The District issues short-term debt to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. On December 14, 2005, the District issued fixed-rate General Obligation Tax Revenue Anticipation Notes in the aggregate amount of $250,000. These Notes were issued at an interest rate of 4.00% and priced to yield 3.27-3.28%, and are to be paid off on September 29, 2006. By law, the District must repay any short-term debt in its entirety by September 30 of that fiscal year.

Long-Term Debt

On December 15, 2005, the District issued its Series 2005A General Obligation Bonds in the aggregate principal amount of $331,210. The proceeds of these bonds will be used to finance a portion of the District's fiscal year 2006 capital improvements program. The 2005A Bonds were issued as fixed-rate bonds at a weighted average interest rate yield of 4.6%. Like all District general obligation bonds, the 2005A bonds are secured by the District's full faith and credit, and are further secured by a security interest and lien on the funds derived from a Special Property Tax levied annually by the District. Interest payments will begin in 2006, and principal payments will begin in 2007, with payments being made on June 1 and December 1. The 2005A Bonds will be paid off on June 1, 2030.

On December 15, 2005, the District issued its Series 2005B General Obligation Refunding Bonds in the aggregate principal amount of $116,475. The proceeds of these bonds will be used to redeem, or defease, a portion of the District's outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds. The 2005B Bonds were issued as fixed-rate bonds at a weighted average interest rate yield of 4.48%. Like all District general obligation bonds, the 2005B bonds are secured by the District's full faith and credit, and are further secured by a security interest and lien on the funds derived from a Special Property Tax levied annually by the District. Interest payments will begin in 2006, and principal payments will begin in 2009, with interest payments being made on June 1 and December 1, and principal payments being made on June 1. The 2005B Bonds will be paid off on June 1, 2027.

PROPOSED FINANCING OF MAJOR LEAGUE BASEBALL STADIUM

On September 29, 2004, the District announced that an agreement had been reached with Major League Baseball (MLB) that would allow the then-Montreal Expos to move to Washington, D.C. The team was renamed the "*Washington Nationals*" and played their 2005 baseball season at Robert F. Kennedy (RFK) Stadium. They will continue to play at RFK until a new 41,000 seat stadium is constructed by the 2008 baseball season. The new stadium will be financed by a bond issuance backed by a fee on District businesses with over $5 million in gross receipts, a percentage of the gross receipts tax collected from utilities for non-residential services, rent payments from the team, and a sales tax on baseball goods and merchandise sold either at the stadium.

The District selected HOK Sport of Kansas City on March 31, 2005 to design the new *Nationals* stadium, with construction set to begin by April 2006. The District is in the process of acquiring the 21-acres of land from the current owners in the Southeast neighborhood selected for the new baseball stadium. Seven of the landowners have agreed to sell their properties, for a total of $14 million, and the District is using its powers of eminent domain to assist in the acquisition of the additional properties from the remaining 16 property owners. The District filed suit in D.C. Superior Court, and deposited $84 million in offers in a court-controlled trust. The eminent domain process will attempt to arrive at a fair and equitable price for the properties, by determining what the properties were worth prior to the announcement of the District's plans to construct a baseball stadium on the site.

According to the Baseball Stadium Agreement, the District needed to enter into a lease with MLB by December 31, 2005. However, by that date, the lease had not been approved by the D.C. Council. On January 4, 2006, MLB announced that it was formally requesting that the American Arbitration Association begin a mediation process that, if not settled within 15-days, after selection of a mediator, could result in binding arbitration, which is to be concluded within six months. The Mayor is expected to resubmit the lease within the next month, after making further changes. It is anticipated that if the D.C. Council approves a lease agreement that is acceptable to MLB, then the nonbinding mediation and/or the binding arbitration will become a non-issue, and the District will quickly move to issue stadium bonds, complete the property acquisition and control process, and begin the construction of the stadium. This includes site clearing, environmental assessment and remediation, and excavation, before actual construction of the stadium itself would begin.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency, the University of the District of Columbia, and the Anacostia Waterfront Corporation, please refer to page 53 of the notes to the basic financial statements that has contact information for those organizations. If you have any questions about the District's Fiscal Year 2005 CAFR, suggestions for improvement, or need additional financial information, please contact:

The Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 209
Washington, D.C. 20004
(202) 727-2476
www.dccfo.com

BASIC FINANCIAL STATEMENTS

The basic financial statements include the *Government-Wide Financial Statements* and *Fund Financial Statements*. These two financial statements present different views of the District.

These financial statements also include the Notes to the Basic Financial Statements that explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District of Columbia
Statement of Net Assets
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	Primary Government				Component Units
	Governmental Activities	Business-Type Activities	Totals 2005	Totals 2004	
ASSETS					
Cash and cash equivalents (unrestricted)	$ 580,546	$ 13,031	$ 593,577	$ 577,289	$ 135,629
Investments (unrestricted)	6,592	7,255	13,847	20,689	85,690
Accrued interest receivable, net	66	-	66	19	-
Due from federal government	484,397	649	485,046	480,734	19,301
Taxes receivable, net	258,672	-	258,672	231,174	-
Accounts receivable, net	113,750	19,115	132,865	130,731	42,239
Other receivables	-	-	-	47,938	17,619
Due from primary government	-	-	-	-	26,753
Due from component units	5,876	-	5,876	13,372	-
Due from fiduciary funds	4,071	-	4,071	-	-
Internal balances	22,962	(22,962)	-	-	-
Inventories	14,476	369	14,845	12,740	7,097
Other current assets	-	279	279	16,542	1,821
Cash and cash equivalents (restricted)	1,271,038	359,857	1,630,895	1,315,632	242,073
Investments (restricted)	-	75,907	75,907	66,481	808,807
Other long term assets	16,450	41	16,491	9,172	56,547
Notes and loans receivable, net	-	-	-	-	372,127
Deferred charges	4,770	-	4,770	-	-
Depreciable capital assets, net	3,672,326	14,919	3,687,245	3,195,844	2,719,812
Non-depreciable capital assets	1,346,613	1,264	1,347,877	1,538,621	147,978
Total assets	7,802,605	469,724	8,272,329	7,656,978	4,683,493
LIABILITIES					
Accounts payable	589,208	26,659	615,867	685,663	91,131
Compensation payable	107,127	466	107,593	166,620	18,494
Due to primary government	-	-	-	-	5,876
Due to component units	26,753	-	26,753	28,209	-
Due to fiduciary funds	930	-	930	701	-
Unearned revenues	188,461	450	188,911	188,548	37,438
Accrued liabilities	196,019	8,650	204,669	162,117	31,419
Accrued interest payable	50,394	-	50,394	47,342	-
Other current liabilities	31,019	6	31,025	48,256	70,527
Long-term liabilities:					
Due within one year	337,570	8,631	346,201	314,547	28,601
Due in more than one year	4,524,460	50,818	4,575,278	4,462,097	3,000,294
Total liabilities	6,051,941	95,680	6,147,621	6,104,100	3,283,780
NET ASSETS					
Invested in capital assets, net of related debt	1,069,731	16,183	1,085,914	792,460	1,035,966
Restricted for:					
Expendable					
Debt service	253,548	-	253,548	239,225	-
Benefit payments	-	322,893	322,893	288,224	-
Capital projects	65,799	-	65,799	43,914	-
Grants and contributions	115,052	-	115,052	239,291	-
Emergency reserves	253,437	-	253,437	285,409	-
Other	242,185	-	242,185	-	168,801
Nonexpendable	-	-	-	-	7,242
Unrestricted	(249,088)	34,968	(214,120)	(335,645)	187,704
Total net assets	$ 1,750,664	$ 374,044	$ 2,124,708	$ 1,552,878	$ 1,399,713

The accompanying notes are an integral part of this statement.

Exhibit 1-b

District of Columbia
Statement of Activities
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

Functions/Programs	Expenses	Program Revenues: Charges for Services, Fees, Fines & Forfeits	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Totals 2005	Primary Government: Totals 2004	Component Units
Primary government:									
Governmental activities:									
Governmental direction and support	$ 641,964	$ 38,995	$ 112,165	$ 14,136	$ (476,668)		$ (476,668)	$ (454,488)	
Economic development and regulation	283,186	92,198	88,368	-	(102,620)		(102,620)	(81,922)	
Public safety and justice	1,036,120	57,474	228,557	-	(750,089)		(750,089)	(711,115)	
Public education system	1,374,538	138	262,184	150	(1,112,066)		(1,112,066)	(1,056,323)	
Human support services	2,663,556	5,824	1,402,579	-	(1,255,153)		(1,255,153)	(1,108,878)	
Public works	307,247	132,533	4,870	98,418	(71,426)		(71,426)	(43,119)	
Public transportation	167,783	-	-	-	(167,783)		(167,783)	(162,602)	
Interest on long-term debt	201,882	-	-	-	(201,882)		(201,882)	(189,697)	
Total governmental activities	6,676,276	327,162	2,098,723	112,704	(4,137,687)		(4,137,687)	(3,808,144)	
Business-type activities:									
Lottery and Games	164,066	234,931	-	-		$ 70,865	70,865	73,195	
Unemployment compensation	92,728	-	16,707	-		(76,021)	(76,021)	(93,552)	
Nursing home services	35,066	32,184	-	-		(2,882)	(2,882)	13,348	
Total business-type activities	291,860	267,115	16,707	-		(8,038)	(8,038)	(7,009)	
Total primary government	$ 6,968,136	$ 594,277	$ 2,115,430	$ 112,704	(4,137,687)	(8,038)	(4,145,725)	(3,815,153)	
Component units:									
Water and sewer authority	$ 271,913	$ 268,377	$ -	$ 34,578					$ 31,042
Convention center	101,844	16,350	-	-					(85,494)
Sports commission	22,319	17,892	-	22,406					17,979
Housing finance	72,325	47,590	-	-					(24,735)
University	94,419	14,951	25,177	5,599					(48,692)
Anacostia waterfront corporation	1,443	-	4,300	-					2,857
Total component units	$ 564,263	$ 365,160	$ 29,477	$ 62,583					(107,043)
General revenues:									
Taxes:									
Property taxes					1,150,672	-	1,150,672	1,017,653	-
Sales and use taxes					957,394	-	957,394	828,391	-
Income and franchise taxes					1,472,432	-	1,472,432	1,299,009	-
Gross receipts taxes					295,819	-	295,819	271,897	-
Other taxes					377,213	92,985	470,198	482,969	-
Grants and contributions not restricted to specific programs					-	-	-	24,543	
Investment earnings					39,811	18,887	58,698	33,058	32,437
Miscellaneous					311,662	680	312,342	314,846	22,208
Subsidy from primary government					-	-	-	-	129,071
Transfer in (out)					71,450	(71,450)	-	-	-
Total general revenues and transfers					4,676,453	41,102	4,717,555	4,272,366	183,716
Change in net assets					538,766	33,064	571,830	457,213	76,673
Net assets at October 1, as restated					1,211,898	340,980	1,552,878	1,095,665	1,323,040
Net assets at September 30					$ 1,750,664	$ 374,044	$ 2,124,708	$ 1,552,878	$ 1,399,713

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia
Balance Sheet
Governmental Funds
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2005	Total Governmental Funds 2004
ASSETS						
Cash and cash equivalents (unrestricted)	$ 492,533	$ 76,825	$ -	$ 11,188	$ 580,546	$ 552,697
Investments (unrestricted)	-	-	-	6,592	6,592	8,615
Accrued interest receivable	-	-	-	66	66	19
Due from federal government	9,328	432,573	42,496	-	484,397	473,756
Taxes receivable, net	256,779	-	-	1,893	258,672	231,174
Accounts receivable, net	75,258	9,786	2,677	26,029	113,750	106,842
Other receivables	-	-	-	-	-	47,938
Due from component units	5,846	-	-	30	5,876	13,372
Due from other funds	873,788	23,947	29	3,956	901,720	602,398
Inventories	11,613	2,863	-	-	14,476	12,255
Other current assets	-	-	-	-	-	16,071
Cash and cash equivalents (restricted)	632,950	33,328	493,921	110,839	1,271,038	993,935
Other long term assets	7,872	8,578	-	-	16,450	9,150
Total assets	$ 2,365,967	$ 587,900	$ 539,123	$ 160,593	$ 3,653,583	$ 3,068,222
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	416,580	89,376	79,889	3,363	589,208	654,716
Compensation payable	91,897	13,090	2,128	12	107,127	165,025
Due to other funds	4,887	200,814	668,764	1,152	875,617	577,382
Due to component units	23,630	-	-	3,123	26,753	28,209
Deferred revenue	98,403	89,756	30,546	172	218,877	216,319
Accrued liabilities	120,315	75,628	-	76	196,019	153,542
Other current liabilities	25,572	1,289	4,158	-	31,019	48,241
Total liabilities	781,284	469,953	785,485	7,898	2,044,620	1,843,434
Fund balances:						
Reserved for:						
General fund purposes	1,110,770	-	-	-	1,110,770	607,903
Special revenue funds purposes	-	117,947	-	131,964	249,911	239,291
Capital project purposes	-	-	65,799	20,731	86,530	43,914
Unreserved, reported in:						
General fund	473,913	-	-	-	473,913	607,112
Capital projects funds	-	-	(312,161)	-	(312,161)	(273,432)
Total fund balances (deficit)	1,584,683	117,947	(246,362)	152,695	1,608,963	1,224,788
Total liabilities and fund balances	$ 2,365,967	$ 587,900	$ 539,123	$ 160,593		$ 3,068,222

Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		5,018,939
Certain long term assets are not available to pay current period expenditures		30,416
Adjustment for deferred charges		4,770
Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period		
General obligation bonds	3,632,198	
Tobacco settlement bonds	498,740	
TIF bonds & notes	117,525	
QZAB	2,815	
Accrued interest payable	50,394	
Capital leases	76,390	
Other long-term liabilities	534,362	
		(4,912,424)
Net assets of governmental activities		$ 1,750,664

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2005	Total Governmental Funds 2004
REVENUES						
Taxes:						
Property taxes	$ 1,148,333	$ -	$ -	$ -	$ 1,148,333	$ 1,028,088
Sales and use taxes	957,394	-	-	-	957,394	828,391
Income and franchise taxes	1,472,432	-	-	-	1,472,432	1,299,009
Gross receipts taxes	295,819	-	-	-	295,819	271,897
Other taxes	377,213	-	-	-	377,213	379,521
Fines and forfeitures	111,146	-	-	-	111,146	102,828
Licenses and permits	82,093	-	-	-	82,093	62,968
Charges for services	132,969	954	-	-	133,923	134,314
Investment earnings	34,867	1,343	292	3,309	39,811	16,211
Miscellaneous	232,193	5,821	37,383	36,176	311,573	305,039
Federal contributions	-	361,751	21,215	-	382,966	393,928
Operating grants	-	1,736,972	91,489	-	1,828,461	1,842,922
Total revenues	4,844,459	2,106,841	150,379	39,485	7,141,164	6,665,116
EXPENDITURES						
Current:						
Governmental direction and support	472,984	117,172	-	188	590,344	483,185
Economic development and regulation	175,664	91,671	-	-	267,335	236,220
Public safety and justice	805,903	228,553	-	-	1,034,456	984,062
Public education system	1,082,129	258,638	-	-	1,340,767	1,284,448
Human support service	1,259,122	1,398,726	-	-	2,657,848	2,563,646
Public works	164,012	11,247	-	41	175,300	164,231
Public transportation	165,303	2,480	-	-	167,783	162,602
Debt service:						
Principal	173,361	-	-	10,484	183,845	152,086
Interest	164,980	-	-	37,407	202,387	189,697
Fiscal charges	9,277	-	-	-	9,277	13,721
Capital outlay	-	-	578,088	37,001	615,089	666,649
Total expenditures	4,472,735	2,108,487	578,088	85,121	7,244,431	6,900,547
Excess (deficiency) of revenues over expenditures	371,724	(1,646)	(427,709)	(45,636)	(103,267)	(235,431)
OTHER FINANCING SOURCES (USES)						
Debt issuance	4,935	-	381,435	-	386,370	325,726
Premium on sale of bonds	-	-	14,478	-	14,478	-
Proceeds from bond escrow restructuring	-	-	-	89	89	9,557
Proceeds from capital lease	19	-	-	-	19	503
Equipment financing program	-	-	15,036	-	15,036	20,822
Transfers in	91,553	-	20,550	81,336	193,439	109,717
Transfers out	(98,563)	(20,014)	-	(3,412)	(121,989)	(36,217)
Total other financing sources (uses)	(2,056)	(20,014)	431,499	78,013	487,442	430,108
Net change in fund balances	369,668	(21,660)	3,790	32,377	384,175	194,677
Fund balances (deficit) at October 1	1,215,015	139,607	(250,152)	120,318	1,224,788	1,030,111
Fund balances (deficit) at September 30	$ 1,584,683	$ 117,947	$ (246,362)	$ 152,695	$ 1,608,963	$ 1,224,788

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2005
($000s)

Net change in fund balances - total governmental funds	$	384,175
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		302,401
Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. This is the amount deferred property taxes increased in the governmental funds between 2004 and 2005.		2,339
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded repayments.		(199,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities decreased in the current period.		48,851
Change in net assets of governmental activities	$	538,766

The accompanying notes are an integral part of this statement.

Exhibit 2-d

District of Columbia
Budgetary Comparison Statement
For the Year Ended September 30, 2005
($000s)

	General Fund				Federal and Private Resources				Totals			
	Budget			Variance Positive	Budget			Variance Positive	Budget			Variance Positive
	Original	Revised	Actual	(Negative)	Original	Revised	Actual	(Negative)	Original	Revised	Actual	(Negative)
Revenues and Sources:												
Taxes:												
Property taxes	$ 1,068,108	$ 1,148,310	$ 1,145,796	$ (2,514)	$ -	$ -	$ -	$ -	$ 1,068,108	$ 1,148,310	$ 1,145,796	$ (2,514)
Sales and use taxes	809,326	840,991	838,075	(2,916)	-	-	-	-	809,326	840,991	838,075	(2,916)
Income and franchise taxes	1,284,753	1,409,526	1,472,432	62,906	-	-	-	-	1,284,753	1,409,526	1,472,432	62,906
Other taxes	540,468	536,444	595,784	59,340	-	-	-	-	540,468	536,444	595,784	59,340
Total taxes	3,702,655	3,935,271	4,052,087	116,816	-	-	-	-	3,702,655	3,935,271	4,052,087	116,816
Licenses and permits	68,457	69,074	74,010	4,936	-	-	-	-	68,457	69,074	74,010	4,936
Fines and forfeits	116,933	110,015	108,012	(2,003)	-	-	-	-	116,933	110,015	108,012	(2,003)
Charges for services	57,621	57,661	51,344	(6,317)	-	-	-	-	57,621	57,661	51,344	(6,317)
Miscellaneous	99,493	101,585	119,061	17,476	-	-	-	-	99,493	101,585	119,061	17,476
Other sources	217,112	318,110	311,789	(6,321)	-	-	-	-	217,112	318,110	311,789	(6,321)
General obligation bonds	-	15,000	4,935	(10,065)	-	-	-	-	-	15,000	4,935	(10,065)
Federal contributions	-	-	-	-	80,035	77,294	89,166	11,872	80,035	77,294	89,166	11,872
Operating grant	-	-	-	-	1,700,869	1,952,330	1,639,083	(313,247)	1,700,869	1,952,330	1,639,083	(313,247)
Fund balance released from restrictions	165,015	80,781	80,781	-	-	43,420	43,420	-	165,015	124,201	124,201	-
Interfund transfer	73,100	73,100	71,450	(1,650)	-	-	-	-	73,100	73,100	71,450	(1,650)
Total revenues and other sources	4,500,386	4,760,597	4,873,469	112,872	1,780,904	2,073,044	1,771,669	(301,375)	6,281,290	6,833,641	6,645,138	(188,503)
Expenditures and Other Uses:												
Governmental direction and support	315,813	336,147	294,778	41,369	100,851	274,923	120,489	154,434	416,664	611,070	415,267	195,803
Economic development and regulation	241,571	272,688	193,456	79,232	93,176	173,342	91,671	81,671	334,747	446,030	285,127	160,903
Public safety and justice	790,815	820,567	805,471	15,096	7,898	14,514	9,724	4,790	798,713	835,081	815,195	19,886
Public education system	1,067,666	1,045,456	1,018,959	26,497	214,586	221,765	200,469	21,296	1,282,252	1,267,221	1,219,428	47,793
Public education AY06 expenditure	-	63,218	63,218	-	-	-	-	-	-	63,218	63,218	-
Human support services	1,192,756	1,270,178	1,258,537	11,641	1,345,533	1,354,967	1,300,169	54,798	2,538,289	2,625,145	2,558,706	66,439
Public works	327,936	335,888	328,997	6,891	3,980	13,728	13,728	-	331,916	349,616	342,725	6,891
Emergency planning and security costs	-	-	-	-	14,880	19,805	16,697	3,108	14,880	19,805	16,697	3,108
Workforce investments	38,114	462	-	462	-	-	-	-	38,114	462	-	462
Wilson building	3,633	3,633	3,259	374	-	-	-	-	3,633	3,633	3,259	374
Contingency reserves - baseball	-	29,743	29,743	-	-	-	-	-	-	29,743	29,743	-
Repay bonds and interest	347,700	342,900	342,683	217	-	-	-	-	347,700	342,900	342,683	217
Bond fiscal charge	-	15,000	4,935	10,065	-	-	-	-	-	15,000	4,935	10,065
Interest on short term borrowing	4,000	4,666	4,666	-	-	-	-	-	4,000	4,666	4,666	-
Certificates of participation	11,252	10,952	10,904	48	-	-	-	-	11,252	10,952	10,904	48
Settlements and judgments fund	20,270	19,370	19,323	47	-	-	-	-	20,270	19,370	19,323	47
Tax increment financing	-	5,557	5,557	-	-	-	-	-	-	5,557	5,557	-
Equipment lease operating	23,109	22,143	22,058	85	-	-	-	-	23,109	22,143	22,058	85
Pay-go contingency	43,137	364	-	364	-	-	-	-	43,137	364	-	364
Pay-go capital	6,531	20,581	20,550	31	-	-	-	-	6,531	20,581	20,550	31
Cash reserve	50,000	1,827	-	1,827	-	-	-	-	50,000	1,827	-	1,827
Non-departmental agency	13,946	1,114	-	1,114	-	-	-	-	13,946	1,114	-	1,114
Total expenditures and other uses	4,498,249	4,622,454	4,427,094	195,360	1,780,904	2,073,044	1,752,947	320,097	6,279,153	6,695,498	6,180,041	515,457
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- BUDGETARY BASIS	**$ 2,137**	**$ 138,143**	**$ 446,375**	**$ 308,232**	**$ -**	**$ -**	**$ 18,722**	**$ 18,722**	**$ 2,137**	**$ 138,143**	**$ 465,097**	**$ 326,954**
Reconcile Budgetary Basis to GAAP Basis:												
Changes in:												
Inventory			1,622				611					
Proceeds from debt restructuring			89				-					
Accounts receivable allowance			17,736				-					
State education loan program			-				2,427					
Operating cost from enterprise funds			(15,373)				-					
Fund balance released from restrictions			(80,781)				(43,420)					
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- GAAP BASIS			$ 369,668				$ (21,660)					

The accompanying notes are an integral part of this statement

Exhibit 3-a

District of Columbia
Statement of Net Assets
Proprietary Funds
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals 2005	Totals 2004
ASSETS					
Current assets:					
Cash and cash equivalents (unrestricted)	$ 8,225	$ -	$ 4,806	$ 13,031	$ 24,592
Investments (unrestricted)	-	-	7,255	7,255	12,074
Due from federal government	-	385	264	649	6,978
Accounts receivable, net	4,783	9,236	5,096	19,115	23,889
Due from other funds	-	1,124	-	1,124	1,551
Inventories	369	-	-	369	485
Other current assets	20	-	259	279	471
Cash and cash equivalents (restricted)	-	359,857	-	359,857	321,697
Total current assets	13,397	370,602	17,680	401,679	391,737
Noncurrent assets:					
Investments (restricted)	59,449	-	16,458	75,907	66,481
Capital assets, net	771	-	15,412	16,183	17,927
Other	-	-	41	41	22
Total noncurrent assets	60,220	-	31,911	92,131	84,430
Total assets	73,617	370,602	49,591	493,810	476,167
LIABILITIES					
Current liabilities					
Accounts payable	2,218	23,617	824	26,659	30,947
Accrued compensated absences	466	-	-	466	1,595
Due to other funds	-	24,086	-	24,086	27,268
Deferred revenue	450	-	-	450	306
Accrued liabilities	7,392	-	1,258	8,650	8,575
Other current liabilities	-	6	-	6	15
Long term liabilities due within one year	8,631	-	-	8,631	8,631
Total current liabilities	19,157	47,709	2,082	68,948	77,337
Noncurrent liabilities					
Long term liabilities due in more than one year	50,818	-	-	50,818	57,850
Total noncurrent liabilities	50,818	-	-	50,818	57,850
Total liabilities	69,975	47,709	2,082	119,766	135,187
NET ASSETS					
Invested in capital assets, net of related debt	771	-	15,412	16,183	17,927
Restricted - expendable	-	322,893	-	322,893	288,224
Unrestricted	2,871	-	32,097	34,968	34,829
Total net assets	$ 3,642	$ 322,893	$ 47,509	$ 374,044	$ 340,980

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals 2005	Totals 2004
Operating revenues:					
Employer taxes	$ -	$ 92,985	$ -	$ 92,985	$ 97,196
Charges for services	234,931	-	32,184	267,115	272,040
Benefit contributions					
Benefit contributions	-	16,695	-	16,695	11,168
Miscellaneous	-	-	680	680	250
Total operating revenues	234,931	109,680	32,864	377,475	380,654
Operating expenses:					
Benefits	-	92,728	-	92,728	113,888
Prizes	139,904	-	-	139,904	137,326
Personnel services	9,684	-	5,231	14,915	15,981
Contractual services	14,078	-	24,093	38,171	14,342
Materials and supplies	-	-	717	717	
Occupancy	-	-	1,804	1,804	-
Depreciation	400	-	1,963	2,363	2,404
Miscellaneous	-	-	1,258	1,258	30,908
Total operating expenses	164,066	92,728	35,066	291,860	314,849
Operating income (loss)	70,865	16,952	(2,202)	85,615	65,805
Nonoperating revenues:					
Interest and investment revenue	651	17,705	531	18,887	16,847
Intergovernmental	-	12	-	12	15,420
Total nonoperating revenue	651	17,717	531	18,899	32,267
Income (loss) before capital contribution and transfers	71,516	34,669	(1,671)	104,514	98,072
Capital contributions	-	-	-	-	15,464
Transfers out	(71,450)	-	-	(71,450)	(73,500)
Change in net assets	66	34,669	(1,671)	33,064	40,036
Total net assets at October 1, as restated	3,576	288,224	49,180	340,980	300,944
Total net assets at September 30	$ 3,642	$ 322,893	$ 47,509	$ 374,044	$ 340,980

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals 2005	Totals 2004
Operating Activities:					
Cash receipts from customers/employers	$ 233,155	$ 119,077	$ 32,874	$ 385,106	$ 364,275
Other cash receipts	1,500	-	645	2,145	667
Cash payments to vendors	(23,441)	-	(32,180)	(55,621)	(33,674)
Cash payments to employees/claimants	(6,336)	(98,634)	-	(104,970)	(128,681)
Other cash payments, including prizes	(135,414)	-	103	(135,311)	(137,725)
Net cash provided by operating activities	69,464	20,443	1,442	91,349	64,862
Noncapital Financing Activities:					
Intergovernmental grants	-	12	-	12	15,420
Interfund transfers out	(71,450)	-	-	(71,450)	(73,500)
Net cash provided by (used in) noncapital financing activities	(71,450)	12	-	(71,438)	(58,080)
Capital and Related Financing Activities:					
Acquisitions of capital assets	(141)	-	(477)	(618)	(836)
Net cash used in capital and related financing activities	(141)	-	(477)	(618)	(836)
Investing Activities:					
Receipts of interest and dividends	651	17,705	532	18,888	16,847
(Purchases)/sales of investments	-	-	(11,582)	(11,582)	2,213
Net cash provided by (used in) investing activities	651	17,705	(11,050)	7,306	19,060
INCREASE (DECREASE) IN CASH	(1,476)	38,160	(10,085)	26,599	25,006
Cash and cash equivalents at October 1	9,701	321,697	14,891	346,289	321,283
Cash and cash equivalents at September 30	$ 8,225	$ 359,857	$ 4,806	$ 372,888	$ 346,289
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	$ 70,865	$ 16,952	$ (2,202)	$ 85,615	$ 71,694
Depreciation	400	-	1,963	2,363	2,404
Miscellaneous nonoperating revenues	-	-	-	-	36
Decrease (increase) in assets:					
Accounts receivable	(421)	9,396	2,089	11,064	(6,766)
Inventories	116	-	-	116	162
Other current assets	(6)	-	159	153	(236)
Increase (decrease) in liabilities:					
Accounts payable	(732)	(5,896)	(574)	(7,202)	(586)
Accrued liabilities	(902)	-	42	(860)	(22)
Deferred revenue	144	-	-	144	35
Other current liabilities	-	(9)	(35)	(44)	(1,859)
Net Cash Provided by Operating Activities:	$ 69,464	$ 20,443	$ 1,442	$ 91,349	$ 64,862
Noncash Investing, Capital, and Financing Activities:					
Contributions from capital assets	$ -	$ -	$ -	$ -	$ 15,464

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005
($000s)

	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents - restricted	$ 329,173	$ -	$ 134,274
Investments - restricted			-
Equities	2,026,439	51,480	
Fixed income securities	786,020	-	
Cash collateral for securities lending transactions	354,912	-	-
Interest and dividends receivables	-	26	-
Accounts receivable	-	54	-
Due from other funds	-	-	930
Other receivables	1,882	-	839
Capital assets	136	-	-
Total assets	3,498,562	51,560	$ 136,043
LIABILITIES			
Accounts payable	23,966	60	14,298
Securities lending collateral	354,912	-	-
Due to other fund	4,071	-	-
Other current liabilities	-	-	121,745
Total liabilities	382,949	60	$ 136,043
NET ASSETS			
Held in trust for pension benefits and other purposes	$ 3,115,613	$ 51,500	

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Fund Net Assets
For the Year Ended September 30, 2005
($000s)

	Pension Trust Funds	Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 121,300	$ -
Plan members	48,582	19,233
Total contributions	169,882	19,233
Investment earnings:		
Net increase in fair value of investments	288,986	2,420
Interest and dividends	100,940	1,050
Total investment earnings	389,926	3,470
Less - investment expenses	(17,078)	-
Net investment earnings	372,848	3,470
Total additions	542,730	22,703
DEDUCTIONS		
Benefits	34,433	-
Administrative expenses	5,999	288
Distributions to participants	-	2,119
Total deductions	40,432	2,407
Change in net assets	502,298	20,296
Net assets at October 1	2,613,315	31,204
Net assets at September 30	$ 3,115,613	$ 51,500

The accompanying notes are an integral part of this statement.

Exhibit 5-a

District of Columbia
Discretely Presented Component Units
Combining Statement of Net Assets
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Univer-sity	Anacostia Waterfront	Totals 2005	Totals 2004
ASSETS								
Current Assets:								
Cash and cash equivalents (unrestricted)	$ 89,331	$ 2,970	$ 10,565	$ 11,814	$ 18,033	$ 2,916	$ 135,629	$ 84,478
Investments (unrestricted)	64,762	20,478	450	-	-	-	85,690	104,665
Receivables, net:								
Accounts	34,721	890	1,546	-	5,032	50	42,239	48,192
Other	12,653	392	-	449	4,125	-	17,619	21,544
Due from federal government	19,301	-	-	-	-	-	19,301	26,893
Due from primary government	15,494	6,536	3,123	-	1,600	-	26,753	28,209
Inventories	7,097	-	-	-	-	-	7,097	6,984
Other current assets	460	917	213	-	223	8	1,821	546
Restricted cash	217,538	-	-	24,535	-	-	242,073	295,521
Restricted investments	20,000	58,682	4,448	693,587	32,090	-	808,807	748,762
Total current assets	481,357	90,865	20,345	730,385	61,103	2,974	1,387,029	1,365,794
Noncurrent assets:								
Loans receivable	-	-	-	371,717	410	-	372,127	349,021
Deferred charges	-	-	-	-	-	-	-	53,531
Other	26,377	8,189	-	21,560	421	-	56,547	4,214
Total long term assets	26,377	8,189	-	393,277	831	-	428,674	406,766
Capital assets, net								
Property and equipment	1,885,647	735,148	31,073	2,129	65,647	168	2,719,812	2,128,373
Non-depreciable capital assets	147,405	-	-	573	-	-	147,978	561,538
Total assets	**2,540,786**	**834,202**	**51,418**	**1,126,364**	**127,581**	**3,142**	**4,683,493**	**4,462,471**
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts	72,219	5,764	6,550	791	5,705	102	91,131	91,675
Compensation	13,123	1,079	555	292	3,445	-	18,494	10,752
Due to primary government	1,121	-	4,755	-	-	-	5,876	13,372
Accrued liabilities	12,563	12,492	3,912	-	2,340	112	31,419	83,377
Deferred revenue	29,874	1,993	129	739	4,703	-	37,438	41,735
Current maturities	13,390	11,190	-	4,000	-	21	28,601	37,479
Other current liabilities	8,560	719	-	48,485	12,763	-	70,527	10,676
Total current liabilities	150,850	33,237	15,901	54,307	28,956	235	283,486	289,066
Noncurrent Liabilities:								
Long term debt:								
Bonds payable	771,638	486,995	-	981,303	-	-	2,239,936	2,146,151
Other long-term liabilities	20,674	20,079	-	2,106	-	40	42,899	31,228
Refundable advances	-	-	-	-	563	-	563	448
Deferred revenue	716,896	-	-	-	-	-	716,896	672,538
Total long term liabilities	1,509,208	507,074	-	983,409	563	40	3,000,294	2,850,365
Total liabilities	**1,660,058**	**540,311**	**15,901**	**1,037,716**	**29,519**	**275**	**3,283,780**	**3,139,431**
NET ASSETS								
Invested in capital assets, net of related debt	713,470	224,717	31,072	952	65,647	108	1,035,966	935,646
Restricted - expendable	41,911	61,312	4,447	60,882	249	-	168,801	168,215
Restricted - nonexpendable	-	-	-	-	7,242	-	7,242	7,242
Unrestricted	125,347	7,862	(2)	26,814	24,924	2,759	187,704	211,937
Total net assets	**$ 880,728**	**$ 293,891**	**$ 35,517**	**$ 88,648**	**$ 98,062**	**$ 2,867**	**$ 1,399,713**	**$ 1,323,040**

The accompanying notes are an integral part of this statement.

Note: Some of the FY 2004 totals in this exhibit are different from the totals in the published FY 2004 CAFR. This is because the FY 2004 audited financial statements for the University were not available when the FY2004 CAFR was completed.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Anacostia Waterfront	Totals 2005	Totals 2004
Operating Revenues:								
Charges for services:								
Public	$ 166,045	$ 16,350	$ 17,892	$ 47,590	$ 14,951	$ -	$ 262,828	$ 245,660
Intergovernmental	102,332	-	-	-	-	-	102,332	102,742
Federal & local grants & contributions	-	-	-	-	25,177	4,300	29,477	23,741
Miscellaneous	4,366	-	-	13,713	3,445	7	21,531	18,446
Total operating revenues	272,743	16,350	17,892	61,303	43,573	4,307	416,168	390,589
Operating Expenses:								
Personnel services	64,038	12,315	5,438	3,569	62,035	527	147,922	144,537
Contractual services	54,156	19,801	8,544	19,776	10,617	529	113,423	94,026
Supplies	22,062	514	1,678	-	4,735	70	29,059	22,350
Occupancy	25,562	5,594	3,618	5,052	3,503	76	43,405	35,543
Scholarships	-	-	-	-	8,179	-	8,179	7,833
Depreciation	41,069	27,795	2,236	257	5,350	15	76,722	75,434
Miscellaneous	23,304	773	805	6,053	-	226	31,161	42,794
Total operating expenses	230,191	66,792	22,319	34,707	94,419	1,443	449,871	422,517
OPERATING INCOME (LOSS)	**42,552**	**(50,442)**	**(4,427)**	**26,596**	**(50,846)**	**2,864**	**(33,703)**	**(31,928)**
Nonoperating Revenues:								
Intergovernmental	-	77,490	-	-	51,581	-	129,071	113,061
Interest revenue	12,612	1,844	169	13,818	3,991	3	32,437	15,973
Other revenue	-	-	-	-	677	-	677	707
Total nonoperating revenue	12,612	79,334	169	13,818	56,249	3	162,185	129,741
Nonoperating Expenses:								
Interest expense	25,415	26,332	-	37,534	-	-	89,281	86,989
Other expenses	16,307	8,720	-	84	-	-	25,111	24,874
Total nonoperating expense	41,722	35,052	-	37,618	-	-	114,392	111,863
Total nonoperating revenues (expenses)	**(29,110)**	**44,282**	**169**	**(23,800)**	**56,249**	**3**	**47,793**	**17,878**
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	13,442	(6,160)	(4,258)	2,796	5,403	2,867	14,090	(14,050)
Capital contributions	34,578	-	22,406	-	5,599	-	62,583	39,467
Total contributions	34,578	-	22,406	-	5,599	-	62,583	39,467
Change in net assets	48,020	(6,160)	18,148	2,796	11,002	2,867	76,673	25,417
Net assets at October 1, as restated	832,708	300,051	17,369	85,852	87,060	-	1,323,040	1,297,623
Net assets at September 30	$ 880,728	$ 293,891	$ 35,517	$ 88,648	$ 98,062	$ 2,867	$ 1,399,713	$ 1,323,040

The accompanying notes are an integral part of this statement.

Note: Some of the FY 2004 totals in this exhibit are different from the totals in the published FY 2004 CAFR. This is because the FY 2004 audited financial statements for the University were not available when the FY2004 CAFR was completed.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the Nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting Delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the agencies that make up its legal entity. The criteria used to determine if organizations are to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.
- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the application of the aforementioned criteria, the District's financial statements include six discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, the Anacostia Waterfront Corporation and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, appoints the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Anacostia Waterfront Corporation, the Washington Convention Center and certain tax revenues are dedicated to these two organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that entity's creation, to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia.

Information on how to obtain a complete set of financial statements for each discretely presented component unit can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Convention Center Authority
General Manager
801 Mount Vernon Place, N.W.
Washington, D. C. 20001

Housing Finance Agency
Executive Director
815 Florida Avenue, N.W.
Washington, D. C. 20001

Sports and Entertainment Commission
General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003

University of the District of Columbia
President
Van Ness Campus
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008

Water and Sewer Authority
General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032

Anacostia Waterfront Corporation
Chief Financial Officer
1100 New Jersey Avenue, S.E.
Suite 700
Washington, D.C. 20003

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District. The District also appoints all members of the governing body of the Tobacco Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus the District is able to impose its will.

Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1275 K Street, N.W., Sixth floor Washington, D.C. 20005.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable.* The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the governing boards of these organizations (except for the Courts), the District's accountability for the organizations does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration, however the Courts are considered a related organization because it provides the judicial services normally associated with municipal and state governments for the District.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, comprised of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11.

E. BASIS OF PRESENTATION

Government-Wide Financial Statements – The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Since by definition,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

assets of fiduciary funds are held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The government-wide statements are comprised of the following:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and it's discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

- *Statement of Activities* – The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District also reports depreciation expense, the cost of "using up" capital assets in the Statement of Activities.

Fund Financial Statements - Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds. The District reports the following major governmental funds:

- *General Fund*, used to account for all financial resources not accounted for in other funds.

- *Federal and Private Resources Fund,* used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.

- *General Capital Improvements Fund,* used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt proceeds.

Non-Major Governmental Funds include three Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund (2) Tobacco Settlement Financing Corporation (TSFC) Fund and (3) Baseball Project Fund. The funds also include two Capital Project Funds: (1) Highway Trust Fund, and (2) Baseball Capital Projects Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration. The District operates only one type of proprietary fund which is an enterprise fund. The District has two major enterprise funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by the Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.

- *Unemployment Compensation Fund* - Used to account for the accumulation of financial resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

Non-Major Proprietary Fund is used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and other governments. The District reports the following fiduciary funds:

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates financial resources for pension benefit payments to qualified District's employees.

- *Private Purpose Trust Fund* is used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.

- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements since the resources cannot be used for operations of the government.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included in the balance sheet. The operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and enterprise funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and enterprise funds and component units. As allowed by GASB Statement No. 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Enterprise funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental entities (GAAP) as established by GASB.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. However, such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. After these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues and services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable situs in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Licenses and permits, fines and forfeitures are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received.

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About March 15 of each year, the Mayor submits to the Council an all sources budget for the General Fund, for the fiscal year commencing the following October 1. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in-lieu-of taxes though passage of an appropriation law.

Appropriations Act

The legally adopted budget is the annual appropriation public law (Appropriations Act) enacted by Congress and signed by the President. The Appropriations Act authorizes expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriations Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation. The Department of Mental Health had overspent its budget by $4.1 million thus violating the D.C. Anti-Deficiency Act.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The Budgetary Comparison Statement shows Revenues and Other Sources as presented in the Conference Report (H.R. 108-734) and Expenditures and Other Uses as contained in the Appropriation Act (PL 108-335).

By law, the budgetary general fund includes both the general fund and the federal and private resources fund presented in Exhibit 2-b. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis.

- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis. Such activities primarily include the following as detailed on Exhibit 2-d:
  - Fund balance released from restrictions
  - Proceeds from debt restructuring
  - Accounts receivable allowance
  - Operating cost from enterprise funds
  - Inventory change
  - State education loan program

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2005 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2005, the Governmental Accounting Standards Board (GASB) issued a new accounting standard, Statement No. 46, Net Assets Restricted by Legislation.

- This Statement, *an amendment of GASB Statement No. 34 paragraph 34,* was issued in December 2004. GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The statement states that the legal enforceability of an enabling legislation should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for consideration. The District has complied with this statement prior to this amendment of GASB Statement No. 34 in fiscal year 2002 and no reevaluation is deemed requisite.

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as "reserved" fund balance in the governmental fund financial statements, to indicate the portion of the net assets or fund balance that is available for restricted purposes, only. Restricted assets also represent cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal charges on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current fiscal year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental funds, bond (discounts) premiums and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond (discounts) premiums and issuance costs are capitalized and amortized as fiscal charges over the term of the related bonds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources, transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. In the case of the initial capitalization of general infrastructure acquired prior to fiscal years ended after June 30, 1980, the District elected to include all such items regardless of their acquisition date.

Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend asset lives is not capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of $5 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table 1 – Estimated Useful Lives (by Asset Category)

	Useful Life
Sewer Lines	45 years
Buildings	50 years
Equipment	5-12 years
Land Improvements	30-40 years

O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation (annual) leave may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory in-lieu-of paid overtime that may be accumulated.

Accrual

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they have matured or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees. In prior years, the general fund has typically been used to liquidate the long-term liabilities other than debt when they mature.

The District does not record a liability for accumulated rights to receive sick pay benefits. At the time of retirement; however, unused sick leave can be used to determine employees years of service. One month would be added to the years and months of service of employees who have accumulated 22 days of sick leave in the Civil Service Retirement System and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the government-wide financial statements. Such obligations are to be paid through the District's general fund.

The District pays principal on its 1994B Capital Appreciation Bonds (CABs) annually. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging form 6.60 to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.

- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2005, the District had established the following reservations and designations (see **Table 28a**):

Reservations

Reserve for Long-Term Assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Reserve for Emergency and Contingency Cash Reserve Fund – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for Debt Service–Bond Escrow - This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Paygo Capital - This portion of fund balance represents amounts to be used to supplement the District's bond financing activity, to the extent feasible, with resources from the general fund.

Reserve for Other Post Employment Benefits - This portion of reserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Reserve for One time expenditures - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives (referred to as "Resident Dividends"), which were approved by the District Council and Congress for FY2006.

Reserve for Capital Fund Deficit Reduction - This portion of fund balance represents the amount that would be used to reduce the deficit of the capital project fund through contributions from the general fund.

Reserve for Inventory - This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Budget - This portion of fund balance represents unused FY 2005 Budget Reserve amounts that are available until expended.

Reserve for Purpose Restrictions - This portion of fund balance represents resources from grants and other revenues with limitations on how the District may expend the funds.

Reserve for Charter School Loans - This portion of fund balance is restricted for the purpose of providing start-up costs for new charter schools.

Reserve for Capital Projects - This portion of fund balance is restricted for the purpose of executing capital projects.

Reserve for Workers' Compensation - This portion of fund balance is restricted for the purpose of paying restitution under Workers' Compensation Claims.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reserve for Tobacco Settlement (TSFC) - This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FY 2001.

Reserve for Tax Increment Financing Program - This portion of fund balance is restricted for debt service on Tax Increment Financing Notes.

Reserve for Future Benefits - This portion of fund balance represents the resource that is available for benefit payments from the Pension and Private Purpose Trust Funds.

Reserve for Baseball - This portion of fund balance represents the resource that is available for constructing the baseball stadium.

Reserve for Highway Projects - This portion of fund balance is restricted for the purpose of executing federal highway projects.

Designations

Designation for Other Post Employment Benefits -- This designation of unreserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Designation for Other Special Purposes -- This designation of unreserved fund balance is for activities financed by fees and charges for services.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2005, there were 5,876 pre-87 (Civil Service) and 11,758 post-87 (DC Defined Contribution) employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid. The District has recognized $655 for post-retirement health and life insurance premiums paid during fiscal year 2005, and as of September 30, 2005, there were 453 annuitants that received these benefits.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

U. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net assets

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under the modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. The difference in deferred revenue of $30,416 between the two statements is a reconciling item.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The details of the $302,401 difference related to capital outlay are as follows:

Capital outlay capitalized	$	499,892
Less: Depreciation expense		(220,981)
Equipment additions		33,706
Loss on disposition		(10,216)
Net adjustment	**$**	**302,401**

Deferred property tax revenues which were earned but which current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenue increased by $2,339 from fiscal year 2004 as a result of a change in the amount deferred in the governmental funds between 2004 and 2005.

The details of the $(199,000) difference related to capital debt are as follows:

Bonds proceeds	$ (386,370)
Equipment financing program	(15,036)
Premium on bonds payable	(14,478)
Capital lease proceeds	(19)
Less:	
Principal payments on bonds and notes	183,845
Principal payments on other capital debt	27,783
Amortization of premium	505
Fiscal charge	4,770
Net adjustment	**$ (199,000)**

The details of the $48,851 difference related to the change in accrued liabilities are as follows:

Annual leave	$	(9,190)
Future disability benefits		56,228
Capital Appreciation Bond (CAB) interest accretion		(3,123)
Grant disallowances		727
Accrued interest		(3,050)
Claims and judgments		4,779
COP		2,480
Net adjustment	**$**	**48,851**

V. RESTATEMENT

As a result of recognition of unearned revenues as revenues in fiscal year 2004, the District restated the beginning fund balance of the Unemployment compensation fund in fiscal year 2005 as follows:

October 1, 2004, as previously reported	$ 294,476
Decrease due to recognition of unearned revenues as revenue	(6,252)
October 1, 2004, as restated	**$ 288,224**

During the course of the audit of the Aging Services entities, it was noted that the fiscal year 2004 net patient service and patient accounts receivable was understated by $363. The restatement of the net assets of the aging entities is as follows:

October 1, 2004, as previously reported	$ 48,817
Understatement of revenue and receivable	363
October 1, 2004, as restated	**$ 49,180**

Errors were discovered in the prior year financial statement of the Washington Convention Center. The errors related to the incorrect classification of a cost as an expense instead of an asset and the overstatement of related payables. The restatement of the net assets of the Convention Center is as follows:

October 1, 2004, as previously reported	$ 297,437
Depreciation expense	1,494
Vendor payables	1,666
Financing arrangement payable	(546)
October 1, 2004, as restated	**$ 300,051**

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of $2,754,238 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2005 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2005, the carrying amount of cash for the primary government was $2,376,536 and the bank balance was $1,822,099. The carrying amount of cash (deposits) for the component units was $377,702 and the bank balance was $376,676.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by United States government or its agencies. The Retirement Board is authorized to invest in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code 1-907.01 (2001 Ed), the Board may not invest in debt instruments of the District, the Commonwealth of Virginia or State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions.

The District and its discretely presented component units' investments are subject to interest rate, credit, custodial credit, and foreign currency risks as described below:

- *Interest Rate Risk* – The District limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments, other than trust held by the Retirement Board, were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. The Retirement Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

- *Credit Risk* - The District invests in obligations of the United States government and agencies securities, prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments (other than those held by the Retirement Board) were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. For the Retirement Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by nationally recognized rating organizations.

- *Custodial Credit Risk* – Custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial risk exposure during the fiscal year. The District collateralized all required investments during fiscal year 2005. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.

- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

  The District invested $9.0 million in investment certificates and securities escrow account with Geneva Capital Partners (Geneva). Geneva maintained the collateral for this investment with its third-party custodian, Clayton, Dunning & Company (Clayton). The District subsequently requested Geneva to move the collateral from Clayton to the District's investment custodial bank, M&T, and that it be equivalent to, at least, 102% of the invested

NOTE 2. CASH AND INVESTMENTS

funds Geneva has provided mortgage notes to M&T, and a pledged collateral agreement, with a stated value of $15.0 million to collateralize the District's $9.0 million investment.

- *Concentration of credit risk* – The District's investment policy does not allow for an investment in any one institution that is in excess of five percent of the District's total investment.

Table 2a – Investments by Type

	Total Carrying Value	
INVESTMENTS		
Primary Government:		
U. S. government securities	$ 167,010	
Corporate securities	49,787	
Pension trust funds investments held by Board's agent in Board's name:		
Equities (of which $83 is on securities loan with securities and other collateral)	1,815,036	
Fixed income securities (of which $16,600 is on securities loan with securities and other collateral)	652,876	2,684,709
Mutual funds	184,340	
Pension trust funds investments held by broker-dealer under securities loans with cash collateral:		
Equity securities	211,403	
Fixed income securities	133,144	
Securities lending collective investment pool	354,912	
Private purpose trust funds investments	51,480	935,279
Total primary government		3,619,988
Component Units:		
U. S. government securities	97,171	
Corporate securities	268,969	
Investment contracts	463,746	
Mutual funds	64,611	
Total component units		894,497
Total reporting entity investments		**$ 4,514,485**
CASH BALANCES		
Primary government		$ 2,376,536
Component units		377,702
Total cash balances		**$ 2,754,238**

Table 2b – Reconciliation of the District's deposit and investment balances

Total investments per Table 2a	$ 4,514,485
Total cash balances	2,754,238
Total	**$ 7,268,723**

	Exhibit 1-a	Exhibit 4-a	Total
Cash and cash equivalents	$ 729,206	$ -	$ 729,206
Investments	99,537	-	99,537
Cash and cash equivalents (restricted)	1,872,968	463,447	2,336,415
Investments (restricted)	884,714	3,218,851	4,103,565
Total	**$ 3,586,425**	**$ 3,682,298**	**$ 7,268,723**

NOTE 2. CASH AND INVESTMENTS

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2005, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

In fiscal year 2005, these derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, mortgage backed security forward contracts, foreign currency futures/forward contracts, and options primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2005, the Pension Trust Funds' portfolio included $467,649 of derivative investments, or 7.46% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

Derivative investments by type at September 30, 2005 are shown in **Table 3.**

NOTE 2. CASH AND INVESTMENTS

Table 3 – Derivative Investments by Type

Derivative Instrument Type		
Asset-backed securities	$	1,635
Collateralized mortgage obligations		45,742
Mortgage-backed security pools and securities		338,201
Inflation index bonds		17,284
Mortgage-backed security forward contracts		60,356
Foreign currency futures/forward contracts, net		5,464
Interest rate swaps		(1,076)
Options		43
Total Derivatives	**$**	**467,649**

C. SECURITIES LENDING

During the fiscal year 2005, the master custodian, at the direction of the Retirement Board, lent the Retirement Funds' equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality Fund).

Because the Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2005.

During fiscal year 2005, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2005.

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of September 30, 2005 was 404 days. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of September 30, 2005 was 45 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2005, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the

NOTE 2. CASH AND INVESTMENTS

Board was $354,912 and $344,547, respectively, as of September 30, 2005.

The collateral held is included in cash and investments shown in Table 2a and Exhibit 4-a, and the securities on loan are reported at their carrying amounts also in Table 2a and Exhibit 4-a.

During fiscal year 2005, the Master Trust's gross earnings from securities lending transactions totaled $2,485. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $2,043, $459, and $2,503 respectively, in 2005. The Fund's share of the net earnings on securities lending transactions totaled $572 in fiscal year 2005.

NOTE 3. RESTRICTED ASSETS

At September 30, 2005, restricted assets of the primary government and its component units totaled $6,439,980 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets

	Governmental Funds/Governmental Activities				
	General	Federal & Private Resources	General Capital Improvements	Non-Major	Total
Bond Escrow Accounts	$ 253,548	$ -	$ -	$ -	$ 253,548
Public Transportation	-	-	493,921	14,581	508,502
Emergency Cash/Debt Service Reserves	253,437	-	-	2	253,439
Others	125,965	33,328	-	96,256	255,549
Total	$ 632,950	$ 33,328	$ 493,921	$ 110,839	$ 1,271,038

	Proprietary Funds/Business-Type Activities					
	Lottery & Games	Unemployment Compensation	Nonmajor	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	$ -	$ -	$ -	$ -	$ -	$ 1,018,790
Unpaid Prizes	59,449	-	-	59,449	-	-
University Endowment	-	-	-	-	-	32,090
Benefits	-	359,857	-	359,857	3,682,298	-
Other	-	-	16,458	16,458	-	-
Total	$ 59,449	$ 359,857	$ 16,458	$ 435,764	$ 3,682,298	$ 1,050,880

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND RECEIVABLES

A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Due to/due from and interfund receivable and payable balances for each fund and individual component unit at September 30, 2005 are shown in **Table 5**.

Table 5 – Summary of Due To /Due From and Interfund Balances

	Primary Government/ Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 5,846	$ 23,630	$ 873,788	$ 4,887
Federal & Private Resources	-	-	23,947	200,814
General Capital Improvements	-	-	29	668,764
Capital Projects, Highway	-	-	2,178	29
Capital Projects, Baseball Fund	30	3,123	1,123	-
Baseball Fund	-	-	-	1,123
Unemployment Compensation	-	-	1,124	24,086
Pension Trust	-	-	-	4,071
TIF	-	-	655	-
Agency	-	-	930	-
Water and Sewer Authority	15,494	1,121	-	-
Washington Convention Center	6,536	-	-	-
Sports and Entertainment Commission	3,123	4,755	-	-
University of the District of Columbia	1,600	-	-	-
Total	**$ 32,629**	**$ 32,629**	**$ 903,774**	**$ 903,774**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2006.

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND RECEIVABLES

B. INTERFUND TRANSFERS

Table 6 shows a summary of interfund transfers for the fiscal year ended September 30, 2005.

Table 6 – Summary of Interfund Transfers

TRANSFER FROM (OUT)	TRANSFER TO (IN)	PURPOSE	AMOUNT
General Fund	Highway Trust Fund	Motor fuel taxes dedicated to the Highway Trust Fund	$ 25,922
DC Lottery & Games	General Fund	DC Lottery & Games excess revenues, after operating cost, to the general fund	71,450
Tobacco Corporation	General Fund	Residual interest paid to the general fund by the Tobacco Settlement Corporation	89
General Fund	Capital Projects	PAYGO-Capital projects financed by the general fund	20,550
General Fund	Baseball Fund	Taxes imposed for the baseball stadium project	35,484
Special Revenues	General Fund	Crime victims	20,014
General Fund	Baseball Fund-Capital	Capital projects financed by contingency baseball funds	7,337
General Fund	Tax Increment Financing Program	Tax imposed to pay bonds on economic development tasks	9,270
Baseball Fund	Baseball Fund-Capital	PAYGO-Capital projects financed by baseball funds	3,323
		TOTAL INTERFUND TRANSFERS	**$ 193,439**

C. RECEIVABLES

Receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 7.**

Table 7 - Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Nonmajor Proprietary Fund	Fiduciary Funds
Gross Receivable:								
Taxes	$ 355,559	$ -	$ -	$ 1,893	$ -	$ -	$ -	$ -
Interest	-	-	-	66	-	-	-	26
Accounts	183,135	9,786	8,813	26,029	5,038	9,621	6,693	2,775
Federal	9,328	550,548	42,496	-	-	-	388	-
Total gross receivable	**548,022**	**560,334**	**51,309**	**27,988**	**5,038**	**9,621**	**7,081**	**2,801**
Less-allowance for uncollectibles	206,657	117,975	6,136	-	255	-	1,721	-
Total net receivable	**$ 341,365**	**$ 442,359**	**$ 45,173**	**$ 27,988**	**$ 4,783**	**$ 9,621**	**$ 5,360**	**$ 2,801**

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays totaled $615,089 for the fiscal year ended September 30, 2005, which are reported in the General Capital Improvements and Other Nonmajor governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building, equipment or infrastructure.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2004	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2005
Non-Depreciable:					
Land	$ 217,941	$ -	$ -	$ 2,063	$ 220,004
Construction in progress	1,319,416	499,892	(16,696)	(676,003)	1,126,609
Total non-depreciable	**1,537,357**	**499,892**	**(16,696)**	**(673,940)**	**1,346,613**
Depreciable:					
Infrastructure	2,833,542	-	-	222,312	3,055,854
Buildings	2,387,209	-	(59,681)	210,422	2,537,950
Equipment	558,699	33,705	(42,481)	241,206	791,129
Total depreciable	**5,779,450**	**33,705**	**(102,162)**	**673,940**	**6,384,933**
Less: Accumulated Depreciation for					
Infrastructure	1,319,551	82,545	-	-	1,402,096
Buildings	953,251	34,077	(58,813)	-	928,515
Equipment	327,467	104,359	(49,829)	-	381,997
Total Accumulated Depreciation	**2,600,269**	**220,981**	**(108,642)**	**-**	**2,712,608**
Total depreciable, Net	**3,179,181**	**(187,276)**	**6,480**	**673,940**	**3,672,325**
Net governmental activities capital assets	**$ 4,716,538**	**$ 312,616**	**$ (10,216)**	**$ -**	**$ 5,018,938**

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2004	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2005
Governmental direction and support	$ 329,686	$ 7,027	$ (61,396)	$ 237,535	$ 512,852
Economic development and regulation	94,008	751	(2,866)	3,152	95,045
Public safety and justice	591,958	14,961	(11,145)	8,336	604,110
Public education system	988,837	6,082	(12,484)	172,698	1,155,133
Human support services	628,446	2,453	(4,455)	3,714	630,158
Public works	3,364,456	2,431	(9,816)	250,568	3,607,639
Construction in progress (CIP)	1,319,416	499,892	(16,696)	(676,003)	1,126,609
Total	**$ 7,316,807**	**$ 533,597**	**$ (118,858)**	$ -	**$ 7,731,546**

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in **Table 10**.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

Function	Balance October 1, 2004	Additions	Transfers/ Dispositions	Balance September 30, 2005
Government direction and support	$ 141,188	$ 62,022	$ (67,412)	$ 135,798
Economic development and regulation	23,514	2,131	(2,045)	23,600
Public safety and justice	243,685	24,158	(12,351)	255,492
Public education system	441,747	23,843	(11,792)	453,798
Human support services	262,745	7,736	(4,501)	265,980
Public works	1,487,390	101,091	(10,541)	1,577,940
Total	**$ 2,600,269**	**$ 220,981**	**$ (108,642)**	**$ 2,712,608**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table 11**.

Table 11 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2004	Additions	Transfers/ Dispositions	Balance September 30, 2005
Lottery:				
Depreciable:				
Equipment	$ 4,038	$ 140	$ -	$ 4,178
Total	**4,038**	**140**	**-**	**4,178**
Nonmajor business-type				
Non-depreciable:				
Land	1,264	-	-	1,264
Depreciable:				
Building	41,324	197	-	41,521
Equipment	5,941	281	(1,648)	4,574
Total Depreciable, nonmajor business-type	**47,265**	**478**	**(1,648)**	**46,095**
Total Business-Type	**52,567**	**618**	**(1,648)**	**51,537**
Less-accumulated depreciation for:				
Equipment	(3,007)	(400)	-	(3,407)
Building and Equipment	(31,633)	(1,962)	1,648	(31,947)
Total accumulated depreciation	(34,640)	(2,362)	1,648	(35,354)
Net capital assets	**$ 17,927**	**$ (1,744)**	**$ -**	**$ 16,183**

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables 12 and 13**.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2004	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2005
Land	$ 12,890	$ -	$ -	$ -	$ 12,890
Utility plant	1,894,466	10,674	-	22,288	1,927,428
Buildings	966,337	27,576	(30,833)	-	963,080
Equipment	139,231	3,457	(5,584)	8,995	146,099
Artwork	2,725	-	-	-	2,725
Construction in progress	553,455	214,401	-	(31,283)	736,573
Total	**3,569,104**	**256,108**	**(36,417)**	**-**	**3,788,795**
Less-accumulated depreciation for					
Utility plant	(610,329)	(30,329)	412	-	(640,246)
Buildings	(139,271)	(31,838)	(1,911)	-	(173,020)
Equipment	(100,165)	(14,556)	6,983	-	(107,738)
Total accumulated depreciation	(849,765)	(76,723)	5,484	-	(921,004)
Net Capital Assets	**$ 2,719,339**	**$ 179,385**	**$ (30,933)**	**$ -**	**$ 2,867,791**

NOTE 5. CAPITAL ASSETS

Table 13 - Capital Assets by Component Units

Component Units	Balance October 1, 2004	Additions	Transfers/ Dispositions	Balance September 30, 2005
University of the District of Columbia	$ 159,436	$ 7,319	$ -	$ 166,755
Washington Convention Center	840,431	2,911	(32,515)	810,827
Water and Sewer Authority	2,523,395	223,660	(3,715)	2,743,340
Sports and Entertainment Commission	40,769	21,966	(187)	62,548
Anacostia Waterfront Corporation	-	183	-	183
Housing Finance Agency	5,073	69	-	5,142
Total capital assets	**3,569,104**	**256,108**	**(36,417)**	**3,788,795**
Less-accumulated depreciation for:				
University of the District of Columbia	(95,906)	(5,351)	148	(101,109)
Washington Convention Center	(49,468)	(27,795)	1,586	(75,677)
Water and Sewer Authority	(672,782)	(41,069)	3,563	(710,288)
Sports and Entertainment Commission	(29,426)	(2,236)	187	(31,475)
Anacostia Waterfront Corporation	-	(15)	-	(15)
Housing Finance Agency	(2,183)	(257)	-	(2,440)
Total accumulated depreciation	(849,765)	(76,723)	5,484	(921,004)
Net component unit capital assets	**$ 2,719,339**	**$ 179,385**	**$ (30,933)**	**$ 2,867,791**

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

Function and Subfunction	Number of Projects	Authorizations	Expenditures: Prior Year	Expenditures: Current Year	Expenditures: Transfers from CIP/Disposition	Expenditures: Total	Unexpended Balance
PRIMARY GOVERNMENT							
Governmental Direction and Support							
Finance	3	$ 44,005	$ 120,077	$ 4,910	$ (108,675)	$ 16,312	$ 27,693
Personnel	1	8,833	7,118	829	-	7,947	886
Legislative	2	15	2,035	-	(2,020)	15	-
Administrative	45	665,750	227,193	102,790	(127,166)	202,817	462,933
Total	51	718,603	356,423	108,529	(237,861)	227,091	491,512
Public Safety and Justice							
Police	7	26,209	2,348	8,122	(7,882)	2,588	23,621
Fire	24	65,521	15,333	7,617	-	22,950	42,571
Correction	5	7,518	4,604	3,307	(393)	7,518	-
Medical Examiner	3	1,136	330	866	(60)	1,136	-
Total	39	100,384	22,615	19,912	(8,335)	34,192	66,192
Economic Development and Regulation							
Zoning	1	350	-	207	-	207	143
Housing and Comm. Dev.	4	30,855	7,581	7,581	-	15,162	15,693
Planning & Econ. Dev.	6	6,993	2,159	3,573	(5,452)	280	6,713
Total	11	38,198	9,740	11,361	(5,452)	15,649	22,549
Public Education System							
Libraries	11	33,330	1,196	2,949	(551)	3,594	29,736
Public Education System	51	1,285,347	350,024	111,945	(184,575)	277,394	1,007,953
Total	62	1,318,677	351,220	114,894	(185,126)	280,988	1,037,689
Human Support Services							
Health and Welfare	27	74,539	34,964	6,129	(1,093)	40,000	34,539
Human Services	14	8,803	18,854	4,974	(15,434)	8,394	409
Mental Health Services	9	69,116	31,980	10,388	-	42,368	26,748
Recreation	16	200,119	18,536	33,291	(2,089)	49,738	150,381
Aging	10	3,587	1,903	1,684	-	3,587	-
Total	76	356,164	106,237	56,466	(18,616)	144,087	212,077
PUBLIC WORKS							
Environmental	112	2,166,133	473,181	188,730	(237,309)	424,602	1,741,531
Total	112	2,166,133	473,181	188,730	(237,309)	424,602	1,741,531
Totals	351	$ 4,698,159	$ 1,319,416	$ 499,892	$ (692,699)	$ 1,126,609	$ 3,571,550

NOTE 6. CONDUIT DEBT TRANSACTIONS

A. INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District, thereby supporting the District's economic base. As of September 30, 2005, the aggregate outstanding principal amount for these conduit debt obligations was approximately $3.8 billion.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (D.C. Zone) are eligible to obtain up to $15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2005 the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $129 million.

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $250,000 in Tax Revenue Anticipation Notes (TRANs) on November 23, 2004. This is a short term financing method used to provide for seasonal cash flow needs. The proceeds of the TRANs were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2005. The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The TRANs were issued as fixed-rate notes at an interest rate of 3.5% and priced to yield 2.05%. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The FY 2005 TRANs, as prescribed by law, were repaid in the current year on September 30, 2005.

NOTE 8. LONG-TERM LIABILITIES

A. LONG-TERM DEBT

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported separately from the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 5.259%. The average interest rate on the District's variable-rate bonds for fiscal year 2005 is 2.10%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling $3,632,198 at September 30, 2005 is shown in **Table 15**.

NOTE 8. LONG-TERM LIABILITIES

Table 15 - Changes in Governmental Activities Long-Term Debt of Primary Government

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	QZAB	Total
Debt payable at October 1, 2004	**$ 3,418,933**	**$ 4,364**	**$ 119,645**	**$ 502,740**	**$ 3,071**	**$ 4,048,753**
Bond and note proceeds:						
Series 2004A	200,870	-	-	-	-	200,870
Series 2004B	38,250	-	-	-	-	38,250
Series 2004C	147,250	-	-	-	-	147,250
Total	**3,805,303**	**4,364**	**119,645**	**502,740**	**3,071**	**4,435,123**
Debt payments:						
Principal matured	173,105	1,542	4,942	4,000	256	183,845
Debt payable at September 30, 2005	**$ 3,632,198**	**$ 2,822**	**$ 114,703**	**$ 498,740**	**$ 2,815**	**$ 4,251,278**

On December 8, 2004, the District issued its Series 2004A General Obligation Bonds in the principal amount of $200,870 (the "2004A Bonds") and the Series 2004B (CPI) Bonds (the "2004B Bonds") in the amount of $38,250. The proceeds of these bonds were used to finance a portion of the District's fiscal year 2005 capital improvements program. Also, on December 8, 2004, the District issued its Series 2004C Multimodal General Obligation Bonds Auction Rate Securities (ARS), (Subseries 2004C-1, Subseries 2004C-2, Subseries 2004C-3) (the "2004C Bonds") in the aggregate principal amount of $147,250. The proceeds of these bonds were also used to finance a portion of the District's fiscal year 2005 capital improvements program.

The 2004A, 2004B and 2004C bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2004A Bonds were issued as fixed-rate bonds. The 2004B Bonds are MUNI-CPI rate bonds (variable-rate bonds based on the Consumer Price Index, swapped to a fixed rate via an interest rate swap agreement). The weighted average interest rate yield for the 2004A Bonds and 2004B Bonds is 4.25%. The 2004C Bonds (Subseries 2004C-1, Subseries 2004C-2, Subseries 2004C-3) were issued as Auction Rate Securities (variable-rate bonds) with a seven day reset for Subseries 2004C-1 and 2004C-2, and a 35 day reset for 2004C-3. The final maturities of the 2004A, 2004B and 2004C Bonds are June 1, 2027, 2020, and 2034, respectively.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling $35,385 are reflected in the financial statements of the Water and Sewer Authority.

TIF Notes and Bonds

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of $6,900 to the House on F Street Development Sponsor. The interest rate on this TIF note ranges from 2.13% to 4.97%. The sole source of repayment of the TIF Notes is the incremental revenues from the Project, and the District has no obligation to make any payments on the TIF Notes, other than through the remittance of such revenues to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, such payment shortfall shall not constitute a default under the TIF agreement. Subsequently, when the incremental revenues are sufficient, the District shall pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

NOTE 8 LONG – TERM LIABILITIES

In 2002, the District promised to pay an aggregate principal amount of $73,650 to the Gallery Place Development Sponsor and $45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rate yields on the Gallery Place and Mandarin Hotel TIF Bonds range from 3.28% on the short end to 5.43% on the long end. These two bond issuances are supported by the pledge of incremental revenues from the respective Projects and secondarily by incremental revenues from a Downtown TIF Area.

Tobacco Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated $1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued $521,105 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which $498,740 was outstanding as of September 30, 2005. The payment of those bonds was secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund. However, none of such funds was returned to the General Fund during the fiscal year 2005. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

During fiscal year 2004, the Tobacco Corporation took advantage of interest rates to restructure its defeasance escrow accounts related to the District's Tobacco Bonds. Certain securities in the defeasance escrow accounts had increased in value in excess of the amount needed to ensure the ability of the accounts to service the debt related to the District's general obligation bonds that were defeased with the proceeds from the sale of the Tobacco Bonds in 2001. The proceeds from the restructuring were transferred out of the defeasance escrow accounts as an additional financing source to the Tobacco Corporation. In accordance with debt agreements related to the Tobacco Bonds, the proceeds from the restructuring were required to be transferred to the District's General Fund. As a result of the restructuring, the Tobacco Corporation transferred $89 thousand to the District in fiscal year 2005.

Summary of debt service requirements for general long-term debt to maturity is shown in **Table 16**.

Table 16 - Summary of Debt Service Requirements for General Long-Term Debt to Maturity

Due to the uncertainty of the future tax increment receipts, future payments on TIF notes and bonds are not included in the summary of debt service requirements.

Year Ending	General Obligation		Tobacco Bonds		
September 30	Principal	Interest	Principal	Interest	Total
2006	$ 188,095	$ 174,221	$ 4,720	$ 32,223	$ 399,259
2007	195,365	164,370	5,215	31,928	396,878
2008	205,825	153,881	12,585	31,603	403,894
2009	216,170	143,080	13,245	30,877	403,372
2010	228,200	131,461	14,305	30,112	404,078
2011 - 2015	779,268	566,590	87,515	136,330	1,569,703
2016 - 2020	565,200	353,613	120,930	105,133	1,144,876
2021 - 2025	707,395	212,856	161,760	59,702	1,141,713
2026 - 2030	456,265	62,262	78,465	5,296	602,288
2031 - 2034	90,415	8,952	-	-	99,367
Total	**$ 3,632,198**	**$ 1,971,286**	**$ 498,740**	**$ 463,204**	**$ 6,565,428**

NOTE 8. LONG-TERM LIABILITIES

Defeased Bonds

In prior years, the District defeased certain bond issues by issuing refunding bonds. As of September 30, 2005, the total amount of defeased debt outstanding but removed from the government-wide financial statement was $569,787.

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received $4,665 and is obligated to deposit a total amount of $3,583 into a sinking fund in fourteen equal amounts of $256 beginning December 1, 2002.

A summary of Debt Service Requirements to Maturity for QZAB is shown in **Table 17.**

Table 17 - Summary of Debt Service Requirements for QZAB

Year Ending September 30	Qualified Zone Academy Bond (QZAB) Principal	Interest	Total
2006	$ 256	$ 35	$ 291
2007	256	47	303
2008	256	59	315
2009	256	71	327
2010	256	83	339
2011-2015	1,279	592	1,871
2016-2020	256	160	416
Total	**$ 2,815**	**$ 1,047**	**$ 3,862**

COMPONENT UNITS

Water and Sewer Authority

The Water and Sewer Authority (WASA) derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2005, the highest rate on these notes was 6.75% and the lowest rate was 3.25%. Debt outstanding at September 30, 2005 totaling $785,027 included net unamortized bond premiums and discounts of ($4,391) and a remaining principal balance of $789,418.

Commercial Paper Note Payable

The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes, not to exceed $50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch respectively. The letter of credit expires on November 30, 2015. WASA had no balance payable in Commercial paper.

NOTE 8 LONG – TERM LIABILITIES

Table 18 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2006	$ 13,390	$ 38,319	$ 51,709
2007	7,553	37,576	45,129
2008	13,955	36,981	50,936
2009	13,999	36,146	50,145
2010	17,448	39,397	56,845
2011 - 2015	88,275	192,543	280,818
2016 - 2020	110,417	172,601	283,018
2021 - 2025	143,580	140,772	284,352
2026 - 2030	183,823	147,216	331,039
2031 - 2035	193,384	130,353	323,737
2036 - 2040	2,947	399	3,346
2041 - 2044	647	21	668
Sub-total	**789,418**	**972,324**	**1,761,742**
Less: Unamortized Net Bond Discount	(4,391)	-	(4,391)
Total	**$ 785,027**	**$ 972,324**	**$ 1,757,351**

Washington Convention Center Authority

On September 29, 1998, the Washington Convention Center Authority (WCCA) issued $524 million in senior lien dedicated tax revenue serial and term bonds at various rates ranging from 4.5% to 5.25%.

The bond proceeds were used to construct and equip the new convention center. The 1998 bonds are special obligations of the WCCA. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The WCCA Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the WCCA to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 19**.

Table 19 – Washington Convention Center Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2006	$ 11,190	$ 24,984	$ 36,174
2007	11,720	24,452	36,172
2008	12,310	23,866	36,176
2009	12,925	23,251	36,176
2010	13,600	22,572	36,172
2011 - 2015	79,500	101,370	180,870
2016 - 2020	102,470	78,400	180,870
2021 - 2025	130,810	50,058	180,868
2026 - 2030	129,025	15,677	144,702
Sub-total	**503,550**	**364,630**	**868,180**
Less: Unamortized Bond Discount	(5,365)	-	(5,365)
Total	**$ 498,185**	**$ 364,630**	**$ 862,815**

NOTE 8. LONG-TERM LIABILITIES

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency, in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Interest rates on these bonds range from 2.0% to 9.75%. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 20**.

Table 20 - Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2006	$ 4,000	$ 49,700	$ 53,700
2007	3,825	49,535	53,360
2008	37,085	48,066	85,151
2009	4,350	67,386	71,736
2010	6,095	47,137	53,232
2011-2015	37,273	231,920	269,193
2016-2020	46,030	222,207	268,237
2021-2025	109,135	205,174	314,309
2026-2030	77,240	171,862	249,102
2031-2035	114,481	143,179	257,660
2036-2040	102,084	106,201	208,285
2041-2045	151,469	78,255	229,724
2046-2050	11,780	52,720	64,500
2051-2055	272,855	33,179	306,034
Subtotal	**977,702**	**1,506,521**	**2,484,223**
Unamortized Bond Premium, net	7,601	-	7,601
Total	**$ 985,303**	**$ 1,506,521**	**$ 2,491,824**

NOTE 8. LONG TERM LIABILITIES

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

All the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District as specified in the Lease Agreement, agreed to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates. The District has approximately $51.8 million of outstanding Certificates of Participation issued by a trust in 2002, with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located at 441 Fourth Street, N.W., in Washington, D.C. The debt service requirements on these COPs are included in capital leases payable (See Note 13C).

The District has approximately $69 million of outstanding Certificates of Participation issued by a trust in 2003, with a final maturity of 2023, as shown in **Table 21**. The weighted average interest rate yield on these COPs is 4.57%. The 2003 COPs were used to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. In each case, the District's payment obligations are subject to and dependent upon both inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose.

Table 21, Summary of Debt Service Requirements for COP

Year Ending September 30	Emergency Preparedness Communications Center & Related Technology (COP) Principal	Interest	Total
2006	$ 2,555	$ 3,246	$ 5,801
2007	2,635	3,168	5,803
2008	2,735	3,064	5,799
2009	2,850	2,948	5,798
2010	2,960	2,840	5,800
2011-2015	17,025	11,980	29,005
2016-2020	21,995	7,009	29,004
2021-2023	16,220	1,180	17,400
Total	$ 68,975	$ 35,435	$ 104,410

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 22**.

Table 22 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
Governmental Activities:				
Accrued disability compensation (Note 14)	$ 266,898	$ 23,491	$ (79,719)	$ 210,670
Accumulated annual leave	101,307	9,713	(523)	110,497
COP public safety center	71,455	-	(2,480)	68,975
Grant disallowances	727	-	(727)	-
Claims & judgments (Note 14)	55,513	38,340	(43,119)	50,734
Equipment financing program (Note 13)	58,508	15,036	(19,700)	53,844
Accreted interest	22,546	3,123	-	25,669
Capital leases payable (Note 13)	84,456	19	(8,085)	76,390
Total	**$ 661,410**	**$ 89,722**	**$ (154,353)**	**$ 596,779**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 66,481**	**$ -**	**$ (7,032)**	**$ 59,449**

NOTE 8. LONG-TERM LIABILITIES

C. CURRENT PORTION OF LONG-TERM LIABILITIES

Table 23 presents the current and long-term portions of long-term liabilities.

Table 23 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Government-Wide Activities			
General Obligation Bonds	$ 188,095	$ 3,444,103	$ 3,632,198
Premium on GO Bonds	606	13,367	13,973
TIF Bonds and Notes	4,809	112,716	117,525
QZAB	256	2,559	2,815
Capital Leases	8,448	67,942	76,390
Tobacco Bonds	4,720	494,020	498,740
Annual leave	71,569	38,928	110,497
Disability compensation	34,877	175,793	210,670
Equipment financing program	21,635	32,209	53,844
Accreted interest	-	25,669	25,669
Claims and judgements	-	50,734	50,734
COP - Public Safety Center	2,555	66,420	68,975
Total	**$ 337,570**	**$ 4,524,460**	**$ 4,862,030**
Business-Type Activities			
Obligation for unpaid prizes	**$ 8,631**	**$ 50,818**	**$ 59,449**

Obligation for Unpaid Prizes

The Lottery is a member of the Multi-State Lottery Association (MUSL), responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments. As of September 30, 2005, MUSL purchased for the Lottery, U.S. government securities totaling $71,507 to fund future installment payments to winners.

The market value of these securities at September 30, 2005 was $59,449. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions

Civil Service Retirement and Social Security Systems

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

The Balanced Budget Act of 1997 (P. L. 105-33) mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997.

NOTE 9. RETIREMENT PROGRAMS

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2005, 2004, and 2003, were as shown in **Table 24.** Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at www.opm.gov.

Table 24 - Summary of District Contributions to Federally Administered Pension Plans

Plan	Rate	Employees	2005	2004	2003
Civil Service	7%	5,876	$ 24,011	$ 23,363	$ 23,637
Social Security	7.65%	25,086	63,966	56,406	52,000
Total			**$ 87,977**	**$ 79,769**	**$ 75,637**
Total Payroll			**$ 1,861,771**	**$ 1,719,073**	**$ 1,565,725**

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 25.**

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2005, 2004 and 2003 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled $277,000 for the year ended September 30, 2005 and have been reported as intergovernmental revenue. Related expenditures of $218,830 and $58,170 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 9. RETIREMENT PROGRAMS

Table 25 - Actuarial Assumptions

	Police and Fire	Teachers
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/03	10/01/03
Actuarial cost method	Aggregate*	Aggregate*
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5%	5%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Actuarially Required Contributions

The District made its actuarially required contribution of $112.1 million to the Police and Fire Pension Plan **(Table 26)** and $9.2 million to the Teachers Pension Plan **(Table 27)** during the year ended September 30, 2005.

Table 26 – Police and Fire Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/05	$ 112.1	100%	$ 0
09/30/04	96.7	100%	0
09/30/03	68.9	100%	0

Table 27 – Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/05	$ 9.2	100%	$ 0
09/30/04	0	N/A	0
09/30/03	0	N/A	0

NOTE 9. RETIREMENT PROGRAMS

B. DEFINED CONTRIBUTION PENSION PLANS

District of Columbia

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2005, District contributions to the plan were $26,908. This plan also covers employees of the Sports and Entertainment Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to $14 of their annual compensation for calendar year 2005. Employees with more than fifteen years of service may defer up to $17 for the calendar year 2005. Also an additional deferral of $4 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of $14 or 100% of includable compensation in calendar year 2005. Also, an additional deferral of $4 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. FUND BALANCE/NET ASSETS

Reserved and unreserved at September 30, 2005 are shown in **Table 28a**.

Table 28a - Schedule of FY 2005 Reserved and Unreserved Fund Balance

	General Fund	Federal & Private Resources	General Capital Improvement	Nonmajor Governmental Funds
Reserved				
Long term assets	$ 7,872	$ -	$ -	$ -
Emergency/contingency cash reserve	253,437	-	-	-
Bond escrow	253,548	-	-	-
PAYGO Capital	199,000	-	-	-
Other Post Employment Benefits	138,000	-	-	-
One time expenditures	76,000	-	-	-
Capital Fund Deficit Reduction	53,800	-	-	-
Inventory	11,613	2,895	-	-
Budget	28,190	-	-	-
Purpose restrictions	61,300	115,052	-	-
Charter school loans	28,010	-	-	-
Capital projects	-	-	65,799	-
Tobacco settlement	-	-	-	90,975
Tax increment financing	-	-	-	8,828
Baseball	-	-	-	32,161
Highway projects	-	-	-	20,731
Total Reserved Fund Balances	**$ 1,110,770**	**$ 117,947**	**$ 65,799**	**$ 152,695**
Unreserved				
Designated:				
Other post employment benefits	$ 28,009	$ -	$ -	$ -
Other special purposes	270,440	-	-	-
Undesignated	175,464	-	(312,161)	-
Total Unreserved Fund Balances	**$ 473,913**	**$ -**	**$ (312,161)**	**$ -**
Total Fund Balances	**$ 1,584,683**	**$ 117,947**	**$ (246,362)**	**$ 152,695**

The general capital improvements fund has a negative fund balance of $(246,362) at September 30, 2005, which will be reduced in subsequent fiscal years by a combination of operating transfers from the general fund and an annual allocation of a portion of bond proceeds.

Restricted and unrestricted net assets at September 30, 2005 are shown in **Table 28b**.

Table 28b - Schedule of FY 2005 Restricted and Unrestricted Net Assets

	Unemployment Compensation Fund	Lottery & Games	Nonmanjor Proprietary Fund	Fiduciary Funds
Restricted/Unrestricted				
Worker's Compensation	$ 322,893	$ -	$ -	$ -
Future benefits	-	-	-	3,115,613
Unrestricted	-	3,642	47,509	-
Total Net Assets	**$ 322,893**	**$ 3,642**	**$ 47,509**	**$ 3,115,613**

NOTE 11. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2005 is shown in **Table 29.**

Table 29 - Summary of Grants Provided to WMATA

Account		Amount
Operating grants	$	153,822
Debt service grants		10,331
Capital grants		40,738
Total	$	204,891

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a Federal contribution to cover special purpose and other unusual costs imposed on the District by the Federal government. Federal contributions to the District for the year ended September 30, 2005 totaled $361,751.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2005. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. Of the $155,900 received in fiscal year 2002, $8,856 was spent in fiscal year 2005. As of September 30, 2005, a total amount of $148,416 has been spent.

C. GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern Virginia customers entered into an agreement with the federal government, which provides for the funding of the

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as the pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer Authority prior to April 1, 1997, are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were $10,674 for the fiscal year ended September 30, 2005.

NOTE 13. LEASES

A. CAPITAL LEASES

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled $12,697 in fiscal year 2005.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program (the "Program") in 1998 to provide tax-exempt financing for assets with short-term to intermediate-term useful lives.

As of September 30, 2005, the District has financed approximately $127.9 million of its capital equipment needs through the Program, and has approximately $53.8 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.5%. Payments on the liability are made on a quarterly basis.

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Table 30 shows the schedule of equipment financing program payments.

Table 30 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2006	$ 21,635	$ 1,890	$ 23,525
2007	13,631	1,070	14,701
2008	9,222	604	9,826
2009	6,688	287	6,975
2010	2,668	67	2,735
Total	**$ 53,844**	**$ 3,918**	**$ 57,762**

NOTE 13. LEASES

B. OPERATING LEASES

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were $105,366 in 2005.

C. SCHEDULES OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2005 are shown in **Table 31**.

Table 31 - Schedule of Future Minimum Lease Payments

	Primary Government		
		Operating Leases	
Year Ending September 30	Capital Leases	Facilities	Equipment
2006	$ 12,679	$ 93,136	$ 3,833
2007	12,443	91,317	2,686
2008	10,720	59,656	1,572
2009	10,717	40,794	1,059
2010	10,715	30,143	374
2011-2015	41,914	54,853	-
2016-2020	-	153	-
Minimum lease payments	**99,188**	**$ 370,052**	**$ 9,524**
Less - imputed interest	22,798		
Present value of payments	**$ 76,390**		

NOTE 14. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2005. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. No accrual has been provided in the government-wide financial statements because there was no estimate of the probable cumulative expenditures that may be disallowed by the granting agencies.

NOTE 14. COMMITMENTS AND CONTINGENCIES

During fiscal year 2004, the District became aware of an investigation being conducted by the Federal Bureau of Investigation of one of its major vendors that previously provided claims processing services related to a major grant program. The District is not a party to the investigation; however, the results of the investigation may impact amounts previously recorded as revenue for this grant program. Due to the uncertainty related to the ultimate resolution of this investigation, no provision for grant disallowances has been included in the financial statements related to this matter.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2005.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be $49,747.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 32**.

Table 32 - Summary of Changes in Claims and Judgments Accrual

Description	2005	2004
Liability at October 1	$ 55,513	$ 51,029
Incurred claims	38,340	22,127
Less:		
claims payments/adjustments	(43,119)	(17,643)
Liability at September 30	$ 50,734	$ 55,513

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value discounted at 4.5% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 33**.

Table 33 – Summary of Changes in Disability Compensation Accrual

Description	2005	2004
Liability at October 1	$ 266,898	$ 260,771
Claims incurred	23,491	42,623
Less-benefit payments/adjustments	(79,719)	(36,496)
Liability at September 30	$ 210,670	$ 266,898

E. INTEREST RATE SWAP AGREEMENTS

Part of the District's debt strategy is to have a diversified portfolio of fixed-rate and variable-rate debt to take advantage of market fluctuations. As part of the management of its exposure to interest rates, the District has executed Interest Rate Swap Agreements in connection with existing or proposed debt issuances as discussed below.

Terms

2004B Swap

On December 8, 2004, the District entered into a series of floating-to-fixed rate swaps in connection with its $38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original total notional amount of the swaps was $38,250. Under the terms of the swaps, scheduled to terminate in 2014, 2015, 2016 and 2020, the District pays fixed-rates of 4.598%, 4.701%, 4.794% and 5.121%, respectively and receives variable rate payments equivalent to the Consumer Price Index published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (CPI Index). The notional value of the swap and the principal amount of the associated debt begins to decline in fiscal year 2014.

NOTE 14. COMMITMENTS AND CONTINGENCIES

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its $124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap was $124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt begins to decline in fiscal year 2015.

2002B Swap

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its $224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was $224,300. Under the terms of the swap, scheduled to terminate in 2027, the District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt begins to decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D ("2001C/D Swap"). The original notional amount of the swap was $283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt began to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001C/D Enhanced Swap, the District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District's underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its $299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's $114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was $299,800. Under the terms of the swap, scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt began to decline in fiscal year 1992.

Fair Market Value

As of September 30, 2005, the 2004B, 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market values as shown in **Table 34**:

Table 34 – Swaps Fair Market Values

Swaps Fair Market Values	
2004B Swap	$ (714)
2002D Swap	(6,076)
2002B Swap	(9,611)
2001C/D (Enhanced Swap)	(3,058)
2001C/D (Bear Stearns)	(12,803)
2001C/D (UBS PaineWebber)	(7,799)
2001A	(477)
Total	**$ (40,538)**

The market value was provided by the counterparty for each respective swap and confirmed by the District's Financial Advisor, Phoenix Capital Partners, LLP.

Credit Risk

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2005, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District faces a maximum possible loss equivalent to the swaps' fair market value ($40,538) in aggregate. Standard & Poor's and Moody's ratings for

NOTE 14. COMMITMENTS AND CONTINGENCIES

the counterparty for each swap as of September 30, 2005 is presented in **Table 35.**

Table 35 – Swaps Counterparty Credit Ratings

Swap	Counterparty	Credit Rating
2004B	Bear Stearns Capital Markets	A/A1
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001C/D	UBS PaineWebber	AA+/Aa2
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001A	Merrill Lynch	A+/Aa3

Basis Risk

The District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement defines an "additional termination event." That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor's Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2005, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 36**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps' notional amount likewise diminishes, or amortizes as well.

Table 36 – Swaps Interest Requirements

	Governmental Activities			
	General Obligation			
Primary Government	Principal	Interest	Interest Rate Swaps, Net	Total
Year Ending September 30				
2006	$ 19,420	$ 19,207	$ 6,963	$ 45,590
2007	12,385	18,783	6,568	37,736
2008	13,040	18,449	6,282	37,771
2009	7,350	18,184	6,084	31,618
2010	7,635	17,994	5,980	31,609
2011-2015	84,015	84,697	27,610	196,322
2016-2020	137,835	66,695	26,258	230,788
2021-2025	271,945	37,909	16,563	326,417
2026-2030	120,140	5,896	2,551	128,587
2031-2035	4,065	105	41	4,211
Total	**$ 677,830**	**$ 287,919**	**$ 104,900**	**$ 1,070,649**

NOTE 14. COMMITMENTS AND CONTINGENCIES

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments. Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2005, unearned revenue of $4,352 related to this agreement is recorded in the government-wide financial statements.

NOTE. 15 SUBSEQUENT EVENTS

A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS

On December 15, 2005 the District issued its Series 2005A General Obligation Bonds in the principal amount of $331,210 (the "2005A Bonds"). The proceeds of these bonds will be used to finance capital project expenditures in the District's capital improvements program and to pay the costs and expenses of issuing and delivering the bonds. Also, on December 15, 2005, the District issued its Series 2005B General Obligation Refunding Bonds in the principal amount of $116,475 (the "2005B Bonds"). The proceeds of these bonds are being used to redeem or defease a portion of the District's outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds.

The 2005A and 2005B Bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2005A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.60%. The 2005B bonds were issued as fixed rate refunding bonds with a weighted average interest rate yield of 4.48%. The final maturities of the 2005A and 2005B Bonds are June 1, 2030 and 2027, respectively.

On December 14, 2005, the District issued Fiscal Year 2006 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of $250,000 (the "Notes"). The proceeds of these notes were issued to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2006. The notes are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The Notes were issued as fixed-rate notes with an interest rate of 4% and priced to yield 3.27%-3.28%, and mature on September 29, 2006.

B. HOUSING FINANCE AGENCY

On October 6, 2005, the agency issued collateralized single family revenue bonds Series 2005A & B for $27.05 million. $10 million with interest rate of 5.55%, $11 million at 4.75% and $6 million with the interest rate of 5.625%. On December 20, 2005, the agency redeemed $268.79 million of its single family draw down variable rate bonds Series 2003. On December 28, 2005, the agency issued multifamily housing revenue draw down variable rate bonds Series 2005 for $112,322.

OTHER SUPPLEMENTARY INFORMATION

This subsection includes the combining and individual fund statements and schedules for the following:

General Fund

Nonmajor Governmental Funds

Fiduciary Funds

Supporting schedules

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GENERAL FUND

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund.

Exhibit A-1

GENERAL FUND
BALANCE SHEET
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	2005	2004
ASSETS		
Cash and cash equivalents (unrestricted)	$ 492,533	$ 436,041
Receivables (net of allowances for uncollectibles):		
Taxes	256,779	227,988
Accounts	75,258	60,486
Intergovernmental	9,328	-
Due from component units	5,846	13,372
Interfund	873,788	574,425
Inventories	11,613	9,999
Cash and cash equivalents (restricted)	632,950	629,068
Total current assets	2,358,095	1,951,379
Long Term Assets:		
Loans	7,872	5,546
Total assets	**$ 2,365,967**	**$ 1,956,925**
LIABILITIES AND FUND BALANCE		
Liabilities:		
Payables:		
Accounts	$ 416,580	$ 361,203
Compensation:		
Salaries and wages	79,798	129,159
Employee benefits	132	155
Payroll taxes	7,942	13,409
Other deductions	4,025	3,419
Due to component units	23,630	28,209
Interfund	4,887	2,952
Accrued liabilities:		
Grant disallowances	9,663	564
Medicaid	59,172	42,309
Tax refunds	51,480	36,389
Deferred revenue:		
Property taxes	69,518	76,466
Other	28,885	21,681
Other current liabilities	25,572	25,995
Total liabilities	**781,284**	**741,910**
Fund Balance:		
Reserved	1,110,770	607,903
Unreserved	473,913	607,112
Total fund balance	**1,584,683**	**1,215,015**
Total liabilities and fund balance	**$ 2,365,967**	**$ 1,956,925**

See Accompanying Independent Auditors' Report

Exhibit A-2

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	2005	2004
Revenues:		
Taxes	$ 4,251,191	$ 3,804,572
Licenses and permits	82,093	62,968
Fines and forfeits	111,146	102,828
Charges for services:		
Public	116,321	102,957
Intergovernmental	1,598	18,795
Interfund	15,050	9,037
Miscellaneous:		
Public	232,193	211,842
Investment income	34,867	12,016
Intergovernmental:		
Operating grants	-	1,291
Total revenues	4,844,459	4,326,306
Expenditures:		
Current:		
Governmental direction and support	472,984	405,015
Economic development and regulation	175,664	145,453
Public safety and justice	805,903	747,769
Public education system	1,082,129	1,029,624
Human support services	1,259,122	1,119,360
Public works	164,012	152,580
Public transportation	165,303	162,602
Debt service:		
Principal	173,361	146,761
Interest	164,980	152,720
Fiscal charges	9,277	13,721
Total expenditures	4,472,735	4,075,605
EXCESS OF REVENUES OVER EXPENDITURES	371,724	250,701
Other Financing Sources (Uses):		
Debt issuance	4,935	10,057
Proceeds from capital lease	19	503
Transfers in	91,553	83,057
Transfers out	(98,563)	(26,660)
Total other financing sources (uses)	(2,056)	66,957
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	**369,668**	**317,658**
Fund Balance at October 1	**1,215,015**	**897,357**
Fund Balance at September 30	**$ 1,584,683**	**$ 1,215,015**

See Accompanying Independent Auditors' Report

Exhibit A-3

GENERAL FUND
SCHEDULE OF EXPENDITURES AND NET FINANCING (SOURCES) USES
FUNCTION AND OBJECT --GAAP BASIS
Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

Function and Subfunction	Personal Services	Contractual Services	Supplies	Occupancy	Miscel-laneous *	Totals 2005	Totals 2004
Governmental Direction and Support:							
Legislative	$ 12,634	788	131	321	1,047	$ 14,921	$ 80,801
Executive	49,409	35,017	365	4,545	10,636	99,972	86,908
Finance	62,498	27,114	638	10,238	120,356	220,844	149,883
Personnel	10,225	13,268	258	1,257	951	25,959	20,601
Administrative	30,097	33,389	561	15,413	26,210	105,670	61,096
Elections	3,297	1,619	110	391	201	5,618	5,726
Total	168,160	111,195	2,063	32,165	159,401	472,984	405,015
Economic Development and Regulation:							
Community development	9,963	8,424	221	2,374	49,031	70,013	56,656
Economic regulation	41,705	10,677	411	9,236	3,387	65,416	59,021
Employment services	9,754	4,183	76	7,551	18,671	40,235	29,776
Total	61,422	23,284	708	19,161	71,089	175,664	145,453
Public Safety and Justice:							
Police	342,872	44,818	4,508	11,668	86,643	490,509	440,762
Fire	135,720	5,250	3,324	3,903	31,586	179,783	174,742
Corrections	55,808	59,446	2,562	5,645	674	124,135	119,138
Protection	4,625	1,411	33	1,470	7	7,546	9,571
Law	2,958	262	37	297	68	3,622	3,274
Judicial	235	61	7	3	2	308	282
Total	542,218	111,248	10,471	22,986	118,980	805,903	747,769
Public Education System:							
Schools	511,902	65,109	10,890	41,728	408,108	1,037,737	988,726
Culture	23,277	3,760	453	2,653	14,249	44,392	40,898
Total	535,179	68,869	11,343	44,381	422,357	1,082,129	1,029,624
Human Support Services:							
Health and welfare	231,034	208,291	11,277	56,147	662,773	1,169,522	1,031,407
Human relations	3,381	2,157	42	305	14,193	20,078	19,395
Employment benefits	34,211	-	-	-	-	34,211	36,109
Recreation	24,929	4,522	790	3,901	1,169	35,311	32,449
Total	293,555	214,970	12,109	60,353	678,135	1,259,122	1,119,360
Public Works	79,572	57,401	3,597	16,130	7,312	164,012	152,580
Public Transportation	-	-	-	-	165,303	165,303	162,602
Debt Service	-	-	-	-	347,618	347,618	313,202
Net Financing (Sources) Uses	-	-	-	-	2,056	2,056	(66,957)
Total expenditures and net sources	$ 1,680,106	586,967	40,291	195,176	1,972,251	$ 4,474,791	$ 4,008,648

See Accompanying Independent Auditors' Report

* This column includes transfers, subsidies and other payments totaling $1,277,188.
Transfers to: Convention Center [$77,490], Charter Schools [$188,324], UDC [$51,581], Baseball [$42,821], PAYGO [$20,550], TIF [$9,270], DC Contribution to Retirement Pension Plan for Police, Fire & Teachers [$121,247]
Payments for: Medicaid & Other Human Support Services [$634,475], Special Education [$131,430]

Exhibit A-4

GENERAL FUND
SCHEDULE OF LOCAL SOURCE REVENUES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended September 30, 2005
($000s)

Source	Budget Original	Budget Revised	Actual	Variance - Positive (Negative)
Taxes:				
Property:				
Real	$ 997,951	1,067,445	1,058,100	(9,345)
Personal	58,107	64,100	72,068	7,968
Public space rental	12,050	16,765	15,628	(1,137)
Total	1,068,108	1,148,310	1,145,796	(2,514)
Sales and use:				
General	741,659	772,080	768,308	(3,772)
Alcoholic beverages	4,374	4,774	5,051	277
Cigarette	22,438	21,466	22,336	870
Motor vehicles	40,855	42,671	42,380	(291)
Total	809,326	840,991	838,075	(2,916)
Income and franchise:				
Individual income	1,041,463	1,088,682	1,160,074	71,392
Corporation franchise	161,270	218,244	195,492	(22,752)
Unincorporated business	82,020	102,600	116,866	14,266
Total	1,284,753	1,409,526	1,472,432	62,906
Gross receipts:				
Public utility	168,365	147,407	166,039	18,632
Toll telecommunication	55,198	47,321	54,576	7,255
Insurance companies	44,500	44,500	48,888	4,388
Health care providers	5,500	5,500	-	(5,500)
Total	273,563	244,728	269,503	24,775
Other:				
Deed recordation	126,130	153,551	161,541	7,990
Deed transfers	103,259	110,225	124,890	14,665
Inheritance and estate	32,921	23,440	29,257	5,817
Economic interests	4,595	4,500	10,593	6,093
Total	266,905	291,716	326,281	34,565
Total taxes	3,702,655	3,935,271	4,052,087	116,816
Licenses and Permits:				
Business licenses	39,409	36,708	47,936	11,228
Nonbusiness permits	29,048	32,366	26,074	(6,292)
Total	68,457	69,074	74,010	4,936
Fines and Forfeits	116,933	110,015	108,012	(2,003)
Charges for Services:				
Right of way	-	-	1,207	1,207
Other	57,621	57,661	50,137	(7,524)
Total	57,621	57,661	51,344	(6,317)
Miscellaneous:				
Interest	14,401	10,902	26,052	15,150
Other	85,092	90,683	93,009	2,326
Total	99,493	101,585	119,061	17,476
Total local source revenues	**$ 4,045,159**	**4,273,606**	**4,404,514**	**130,908**

See Accompanying Independent Auditors' Report

Exhibit A-5

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS
Year Ended September 30, 2005
($000s)

	Local Source				Other Source				Totals			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Revenues and Sources:												
Taxes												
Property	$ 1,068,108	1,148,310	1,145,796	(2,514)	-	-	-	-	1,068,108	1,148,310	1,145,796	(2,514)
Sales and uses	809,326	840,991	838,075	(2,916)	-	-	-	-	809,326	840,991	838,075	(2,916)
Income and franchise	1,284,753	1,409,526	1,472,432	62,906	-	-	-	-	1,284,753	1,409,526	1,472,432	62,906
Gross receipts and other taxes	540,468	536,444	595,784	59,340	-	-	-	-	540,468	536,444	595,784	59,340
Total taxes	3,702,655	3,935,271	4,052,087	116,816	-	-	-	-	3,702,655	3,935,271	4,052,087	116,816
Licenses and permits	68,457	69,074	74,010	4,936	-	-	-	-	68,457	69,074	74,010	4,936
Fines and forfeits	116,933	110,015	108,012	(2,003)	-	-	-	-	116,933	110,015	108,012	(2,003)
Charges for services	57,621	57,661	51,344	(6,317)	-	-	-	-	57,621	57,661	51,344	(6,317)
Miscellaneous	99,493	101,585	119,061	17,476	-	-	-	-	99,493	101,585	119,061	17,476
Other	-	-	-	-	217,112	318,110	311,789	(6,321)	217,112	318,110	311,789	(6,321)
General obligation bonds	-	15,000	4,935	(10,065)	-	-	-	-	-	15,000	4,935	(10,065)
Fund balance released from restrictions	49,365	67,325	67,325	-	115,650	13,456	13,456	-	165,015	80,781	80,781	-
Interfund transfer	73,100	73,100	71,450	(1,650)	-	-	-	-	73,100	73,100	71,450	(1,650)
Total Revenues and Sources	4,167,624	4,429,031	4,548,224	119,193	332,762	331,566	325,245	(6,321)	4,500,386	4,760,597	4,873,469	112,872
Expenditures and Uses:												
Governmental direction and support	261,068	281,367	272,404	8,963	54,745	54,780	22,374	32,406	315,813	336,147	294,778	41,369
Economic development and regulation	55,765	87,265	84,178	3,087	185,806	185,423	109,278	76,145	241,571	272,688	193,456	79,232
Public safety and justice	760,849	794,201	782,797	11,404	29,966	26,366	22,674	3,692	790,815	820,567	805,471	15,096
Public education system	1,058,709	1,035,403	1,010,902	24,501	8,957	10,053	8,057	1,996	1,067,666	1,045,456	1,018,959	26,497
Public education AY06 expenditure	-	63,218	63,218	-	-	-	-	-	-	63,218	63,218	-
Human support services	1,165,315	1,233,561	1,229,443	4,118	27,441	36,617	29,094	7,523	1,192,756	1,270,178	1,258,537	11,641
Public works	312,035	318,595	317,426	1,169	15,901	17,293	11,571	5,722	327,936	335,888	328,997	6,891
Workforce investments	38,114	462	-	462	-	-	-	-	38,114	462	-	462
Wilson building	3,633	3,633	3,259	374	-	-	-	-	3,633	3,633	3,259	374
Contingency reserves - baseball	-	29,743	29,743	-	-	-	-	-	-	29,743	29,743	-
Repay bonds and interest	347,700	342,900	342,683	217	-	-	-	-	347,700	342,900	342,683	217
Bond fiscal charge	-	15,000	4,935	10,065	-	-	-	-	-	15,000	4,935	10,065
Interest on short term borrowing	4,000	4,666	4,666	-	-	-	-	-	4,000	4,666	4,666	-
Certificates of participation	11,252	10,952	10,904	48	-	-	-	-	11,252	10,952	10,904	48
Settlements and judgments fund	20,270	19,370	19,323	47	-	-	-	-	20,270	19,370	19,323	47
Tax increment financing	-	5,557	5,557	-	-	-	-	-	-	5,557	5,557	-
Equipment lease operating	23,109	22,143	22,058	85	-	-	-	-	23,109	22,143	22,058	85
Pay-go contingency	43,137	364	-	364	-	-	-	-	43,137	364	-	364
Pay-go capital	6,531	20,581	20,550	31	-	-	-	-	6,531	20,581	20,550	31
Cash reserve	50,000	1,827	-	1,827	-	-	-	-	50,000	1,827	-	1,827
Non-departmental agency	4,000	80	-	80	9,946	1,034	-	1,034	13,946	1,114	-	1,114
Total Expenditures and Uses	4,165,487	4,290,888	4,224,046	66,842	332,762	331,566	203,048	128,518	4,498,249	4,622,454	4,427,094	195,360
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	**$ 2,137**	**138,143**	**324,178**	**186,035**	**-**	**-**	**122,197**	**122,197**	**2,137**	**138,143**	**446,375**	**308,232**

See Accompanying Independent Auditors' Report

Exhibit A-6

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES
Year Ended September 30, 2005
($000s)

	Original Budget	Revisions	Revised Budget	Actual	Variance (Actual To Original Budget)
Revenues and Sources:					
Taxes:					
Property	$ 1,068,108	80,202	1,148,310	1,145,796	77,688
Sales and use	809,326	31,665	840,991	838,075	28,749
Income and franchise	1,284,753	124,773	1,409,526	1,472,432	187,679
Other taxes	540,468	(4,024)	536,444	595,784	55,316
Total taxes	3,702,655	232,616	3,935,271	4,052,087	349,432
Licenses and permits	68,457	617	69,074	74,010	5,553
Fines and forfeits	116,933	(6,918)	110,015	108,012	(8,921)
Charges for services	57,621	40	57,661	51,344	(6,277)
Miscellaneous	99,493	2,092	101,585	119,061	19,568
Other	217,112	100,998	318,110	311,789	94,677
General obligation bonds	-	15,000	15,000	4,935	4,935
Fund balance released from restriction	165,015	(84,234)	80,781	80,781	(84,234)
Interfund transfer	73,100	-	73,100	71,450	(1,650)
Total Revenues and Sources	4,500,386	260,211	4,760,597	4,873,469	373,083
Expenditures and Uses:					
Governmental direction and support	315,813	20,334	336,147	294,778	21,035
Economic development and regulation	241,571	31,117	272,688	193,456	48,115
Public safety and justice	790,815	29,752	820,567	805,471	(14,656)
Public education system	1,067,666	(22,210)	1,045,456	1,018,959	48,707
Public education AY06 expenditure	-	63,218	63,218	63,218	(63,218)
Human support services	1,192,756	77,422	1,270,178	1,258,537	(65,781)
Public works	327,936	7,952	335,888	328,997	(1,061)
Workforce investments	38,114	(37,652)	462	-	38,114
Wilson building	3,633	-	3,633	3,259	374
Contingency reserves - baseball	-	29,743	29,743	29,743	(29,743)
Repay bonds and interest	347,700	(4,800)	342,900	342,683	5,017
Bond fiscal charge	-	15,000	15,000	4,935	(4,935)
Interest on short term borrowing	4,000	666	4,666	4,666	(666)
Certificates of participation	11,252	(300)	10,952	10,904	348
Settlements and judgments fund	20,270	(900)	19,370	19,323	947
Tax increment financing	-	5,557	5,557	5,557	(5,557)
Equipment lease operating	23,109	(966)	22,143	22,058	1,051
Pay-go contingency	43,137	(42,773)	364	-	43,137
Pay-go capital	6,531	14,050	20,581	20,550	(14,019)
Cash reserve	50,000	(48,173)	1,827	-	50,000
Non-departmental agency	13,946	(12,832)	1,114	-	13,946
Total Expenditures and Uses	4,498,249	124,205	4,622,454	4,427,094	71,155
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	**$ 2,137**	**136,006**	**138,143**	**446,375**	**444,238**

See Accompanying Independent Auditors' Report

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The **Tax Increment Financing (TIF) Program Fund** is used to account for activities relating to various TIF development initiatives.

The **Tobacco Settlement Financing Corporation (TSFC) Fund** is used to account for the tobacco litigation settlement activities of the District of Columbia.

The **Baseball Project Fund** under the Special Revenue Funds is used to account for the proceeds of baseball related revenue sources that are legally restricted to expenditures for baseball project purposes.

Capital Project Funds

The **Baseball Project Fund** under the Capital Project Funds is used to account for financial resources used for the construction of a new baseball stadium.

The **Highway Trust Fund** is used to account for the motor vehicle fuel taxes and other fees collected and used by the District for highway projects.

Exhibit B-1

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	Special Revenue Funds			Capital Project Funds		Totals	
	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Baseball Project	Baseball Project	Highway Trust	2005	2004
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 1,562	$ 227	$ -	$ 2,543	$ 6,856	$ 11,188	$ 6,702
Investments	6,592	-	-	-	-	6,592	8,615
Receivables (net of allowances for uncollectibles):							
Taxes	-	-	1,893	-	-	1,893	3,186
Accounts	17	24,375	1,637	-	-	26,029	28,674
Due from other District entities	-	-	-	30	-	30	-
Interfund	655	-	-	1,123	2,178	3,956	707
Accrued interest	-	65	-	-	1	66	19
Restricted cash and cash equivalents	2	66,384	29,872	-	14,581	110,839	83,042
Total assets	$ 8,828	$ 91,051	$ 33,402	$ 3,696	$ 23,616	$ 160,593	$ 130,945
LIABILITIES AND FUND BALANCE							
Current Liabilities:							
Payables:							
Accounts	$ -	$ -	$ -	$ 573	$ 2,790	$ 3,363	$ 8,732
Compensation payable	-	-	-	-	12	12	12
Deferred revenue	-	-	118	-	54	172	1,815
Due to other funds	-	-	1,123	-	29	1,152	-
Due to other District entities	-	-	-	3,123	-	3,123	-
Accrued liabilities	-	76	-	-	-	76	68
Total liabilities	-	76	1,241	3,696	2,885	7,898	10,627
Fund Balance:							
Reserved for special revenue funds	8,828	90,975	32,161	-	-	131,964	99,684
Reserved for capital project funds	-	-	-	-	20,731	20,731	20,634
Total fund balances	8,828	90,975	32,161	-	20,731	152,695	120,318
Total liabilities and fund balances	$ 8,828	$ 91,051	$ 33,402	$ 3,696	$ 23,616	$ 160,593	$ 130,945

See Accompanying Independent Auditors' Report.

Exhibit B-2

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	Special Revenue Funds			Capital Project Funds		Totals	
	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Baseball Project	Baseball Project	Highway Trust	2005	2004
Revenues:							
Interest	$ 210	$ 2,583	$ -	$ -	$ 516	$ 3,309	$ 2,689
Other	2,182	33,994	-	-	-	36,176	40,640
Total revenues	2,392	36,577	-	-	516	39,485	43,329
Expenditures							
Current:							
Governmental direction and support	-	188	-	-	-	188	194
Capital outlay	-	-	-	10,660	26,341	37,001	31,441
Bond principal payment	6,484	4,000	-	-	-	10,484	5,325
Other	41	-	-	-	-	41	72
Interest	4,933	32,474	-	-	-	37,407	36,977
Total expenditures	11,458	36,662	-	10,660	26,341	85,121	74,009
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(9,066)	(85)	-	(10,660)	(25,825)	(45,636)	(30,680)
Other Financing Sources (Uses)							
Transfers in	9,270	-	35,484	10,660	25,922	81,336	26,660
Transfers out	-	(89)	(3,323)	-	-	(3,412)	(9,557)
Proceeds from bond escrow restructuring	-	89	-	-	-	89	9,557
Total other financing sources	9,270	-	32,161	10,660	25,922	78,013	26,660
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	204	(85)	32,161	-	97	32,377	(4,020)
Fund Balances at October 1	8,624	91,060	-	-	20,634	120,318	124,338
Fund Balances at September 30	$ 8,828	$ 90,975	$ 32,161	$ -	$ 20,731	$ 152,695	$ 120,318

See Accompanying Independent Auditors' Report.

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District has the following Fiduciary Funds:

The **Pension Trust Funds** are used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future for police officers, fire fighters and public school teachers of the District. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a thirteen member Retirement Board. Three of these members are appointed by the Mayor and three by the Council. The other members include one each active and retired police officers, fire fighters, and teachers. The administrative costs of the board are accounted for in the funds.

The **Private Purpose Trust Fund** is used to account for the District's sponsored college tuition savings plan.

The **Agency Funds** are used to account for refundable deposits required of various licensees, monies held in escrow as an agent for individuals, private organizations or other governments.

Exhibit C-1

PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2005
(With Comparative Totals at September 30, 2004)
($000s)

	Police and Fire	Teachers	Totals 2005	Totals 2004
ASSETS				
Current Assets:				
Cash and cash equivalents - restricted	$ 208,019	$ 121,154	$ 329,173	$ 290,768
Investments - restricted	2,001,601	1,165,770	3,167,371	2,659,510
Receivables:				
Benefit contribution	-	-	-	1,564
Other current assets	937	945	1,882	1,816
Capital assets	86	50	136	-
Total assets	**2,210,643**	**1,287,919**	**3,498,562**	**2,953,658**
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Payables:				
Accounts	10,731	13,235	23,966	17,946
Securities lending	224,265	130,647	354,912	321,697
Due to primary government	2,555	1,516	4,071	700
Total liabilities	**237,551**	**145,398**	**382,949**	**340,343**
Net Assets				
Held in trust for pension benefits	**$ 1,973,092**	**$ 1,142,521**	**$ 3,115,613**	**$ 2,613,315**

See Accompanying Independent Auditors' Report.

Exhibit C-2

PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended September 30, 2005
(With Comparative Totals for the Year Ended September 30, 2004)
($000s)

	Police and Fire	Teachers	Totals 2005	Totals 2004
Additions:				
Benefit contributions:				
Employer	$ 112,100	$ 9,200	$ 121,300	$ 96,700
Plan members	23,804	24,778	48,582	47,130
Investment income:				
Interest and dividends	63,686	37,254	100,940	67,276
Net appreciation in fair value of investments	182,608	106,378	288,986	210,263
Less - investment expenses	(10,779)	(6,299)	(17,078)	(9,275)
Total additions	371,419	171,311	542,730	412,094
Deductions:				
Administrative expenses	3,789	2,210	5,999	2,479
Benefit payments	13,564	20,869	34,433	16,503
Total deductions	17,353	23,079	40,432	18,982
Change in net assets	**354,066**	**148,232**	**502,298**	**393,112**
Net assets held in trust for pension benefits:				
October 1	**1,619,026**	**994,289**	**2,613,315**	**2,220,203**
September 30	**$ 1,973,092**	**$ 1,142,521**	**$ 3,115,613**	**$ 2,613,315**

See Accompanying Independent Auditors' Report.

Exhibit C-3

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended September 30, 2005
($000s)

	Balance October 1 2004	Additions	Deductions	Balance September 30 2005
ASSETS				
Cash and cash equivalents - restricted	$ 115,870	1,076,219	1,057,815	134,274
Due from other funds	1,401	930	1,401	930
Other receivables	1,087	1,169,380	1,169,628	839
Total assets	$ 118,358	2,246,529	2,228,844	136,043
LIABILITIES				
Accounts payable	$ 10,124	110,948	106,774	14,298
Due to other fund	-	29	29	-
Other current liabilities	108,234	361,922	348,411	121,745
Total liabilities	$ 118,358	472,899	455,214	136,043

See Accompanying Independent Auditors' Report.

SUPPORTING SCHEDULES

Supporting schedules are financial presentations used to aggregate and present in greater detail information contained in the financial statements and to present additional information not disclosed in the basic financial statements.

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2005
($000s)

	Budget			
	Original	Revised	Actual	Variance
Governmental direction and support:				
City Council	$ 12,809	12,874	12,366	508
DC Auditor	1,784	1,795	1,663	132
Advisory neighborhood commissions	976	976	893	83
Mayor	9,721	11,132	8,826	2,306
Executive secretary	3,679	4,164	2,936	1,228
Citywide call center	357	362	361	1
City administrator	110,921	282,368	109,451	172,917
Risk management	1,323	1,332	1,258	75
Personnel	11,896	12,209	9,388	2,821
Human resource development	1,978	1,982	1,887	95
Finance and resource management	7,687	9,611	9,431	180
Contracts and procurement	11,198	11,771	11,180	591
Chief technology officer	40,324	45,608	44,781	827
Property management	18,054	20,088	17,541	2,547
Contract appeals	764	768	765	3
Elections and ethics	4,805	5,662	5,172	490
Campaign finance	1,324	1,331	1,292	39
Public employee relations	776	779	682	97
Employee appeals	1,536	1,543	1,438	105
Council of governments	926	926	926	-
Corporation counsel	60,120	64,837	55,390	9,447
Inspector general	10,284	11,693	11,171	522
Chief financial officer	103,422	107,259	106,469	790
Total governmental direction and support	**416,664**	**611,070**	**415,267**	**195,804**
Economic development and regulation:				
Business services and economic development	22,309	32,684	30,379	2,305
Office of planning	6,512	7,292	6,421	871
Local business development	1,040	1,044	982	62
Motion picture and television development	564	567	516	51
Office of zoning	2,581	2,590	2,457	133
Housing and community development	145,266	237,687	104,051	133,636
Alcoholic beverage regulation administration	4,877	5,152	3,266	1,886
Employment services	84,886	90,430	74,549	15,881
Real property assessment and appeals	342	344	337	7
Consumer and regulatory affairs	37,154	38,254	34,942	3,312
Public services commission	7,656	7,265	6,746	519
Office of people's counsel	3,885	3,988	3,830	158
Insurance regulation	13,675	13,675	11,766	1,909
Office of cable TV	4,000	5,058	4,885	173
Total economic development and regulation	**334,747**	**446,030**	**285,127**	**160,903**
Public safety and justice:				
Police	365,676	395,202	385,970	9,232
Fire and emergency medical services	144,995	151,083	149,226	1,857
Police and firefighter retirement contribution	112,100	112,100	112,100	-
Corrections	120,024	124,614	123,377	1,237
National guard	3,253	3,260	2,167	1,093
Emergency preparedness	5,030	4,202	3,289	913
Judicial disabilities and tenure	213	214	204	10
Judicial nomination	118	120	103	17
Citizen complaint review board	1,756	1,766	1,715	51
Advisory commission on sentencing	581	583	537	46
Office of the chief medical examiner	6,762	6,785	6,362	423
Office of adminstrative hearings	5,483	5,093	3,621	1,472
Corrections information council	155	155	49	106
Criminal justice coordinating council	1,550	1,524	1,502	22
Forensic health and science laboratory	800	800	730	70
Emergency and disaster	-	1,331	-	1,331
Office of unified communications	30,217	26,249	24,243	2,006
Total public safety and justice	**798,713**	**835,081**	**815,195**	**19,886**
Public education system:				
Public schools	908,090	941,447	926,885	14,562
AY06 public school expenditure	-	4,799	4,799	-
Teachers' retirement system	9,200	9,200	9,147	53
State education office	82,388	73,923	65,766	8,157
Public charter schools	196,802	152,916	129,905	23,011
AY06 public charter school expenditure	-	58,419	58,419	-
University	49,602	51,581	51,581	-
Public library	30,832	32,562	31,066	1,496
Arts and humanities	5,338	5,592	5,078	514
Total public education system	$ **1,282,252**	**1,330,439**	**1,282,646**	**47,793**

(Continued)

Exhibit D-1

FINANCIAL REPORTING ENTITY

SCHEDULE OF BUDGETARY BASIS EXPENDITURES

Year Ended September 30, 2005
($000s)

	Budget			
	Original	Revised	Actual	Variance
Human support services:				
Human development	$ 439,621	463,152	462,807	345
Child and family services	181,189	199,199	198,024	1,175
Dept of mental health	163,095	194,926	197,951	(3,025)
Health	1,629,615	1,645,873	1,582,670	63,203
Recreation and parks	36,742	37,286	35,893	1,393
Aging	20,883	21,828	20,938	890
Unemployment compensation contribution	8,124	5,824	5,198	626
Employee disability compensation	29,600	29,013	29,013	-
Human rights	2,514	5,111	4,115	996
Children investment trust	5,068	5,068	5,068	-
Latino affairs	3,655	3,941	3,894	47
Energy	17,591	13,329	12,550	779
Asian and pacific islander affairs	353	355	351	4
Veterans' affairs	239	240	234	6
Total human support services	**2,538,289**	**2,625,145**	**2,558,706**	**66,439**
Public works:				
Public works	89,774	94,033	92,175	1,858
Department of transportation	31,353	39,263	39,016	247
Department of motor vehicles	40,633	42,463	37,796	4,667
Taxicab commission	1,258	1,259	1,203	56
Washington metropolitan area transit commission	95	95	95	-
Washington metropolitan area transit authority	164,133	167,833	167,783	50
School transit subsidy	4,670	4,670	4,657	13
Total public works	**331,916**	**349,616**	**342,725**	**6,891**
Other:				
Contingency reserves - baseball	-	29,743	29,743	-
Repayment of bonds and interest	347,700	342,900	342,683	217
Bond fiscal charge paid from bond proceeds	-	15,000	4,935	10,065
Interest on short term borrowing	4,000	4,666	4,666	-
Certificates of participation	11,252	10,952	10,904	48
Settlements and judgments	20,270	19,370	19,323	47
Emergency planning and security costs	14,880	19,805	16,697	3,108
Wilson Building	3,633	3,633	3,259	374
Workforce investment	38,114	462	-	462
Tax increment financing	-	5,557	5,557	-
Equipment lease operating	23,109	22,143	22,058	85
Pay-go contingency	43,137	364	-	364
Pay-go capital	6,531	20,581	20,550	31
Cash reserve	50,000	1,827	-	1,827
Non-departmental agency	13,946	1,114	-	1,114
Storm water	3,792	3,792	2,826	966
Retirement board administration	15,277	15,529	12,548	2,981
Housing finance agency	-	6,083	-	6,083
National capital revitalization corporation	7,849	7,849	-	7,849
Total other	**603,490**	**531,370**	**495,749**	**35,621**
Total budget	$ **6,306,071**	**6,728,751**	**6,195,415**	**533,337**

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2005
($000s)

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Governmental direction and support:								
City Council	$ 12,809	12,874	12,366	508	-	-	-	-
DC Auditor	1,784	1,795	1,663	132	-	-	-	-
Advisory neighborhood commissions	976	976	893	83	-	-	-	-
Mayor	5,808	6,293	6,039	254	3,913	4,700	2,675	2,025
Executive secretary	3,264	3,652	2,492	1,160	-	-	-	-
Citywide call center	357	362	361	1	-	-	-	-
City administrator	8,226	8,422	8,256	166	77,935	249,186	98,399	150,787
Risk management	1,323	1,332	1,258	75	-	-	-	-
Personnel	11,393	11,706	9,016	2,690	-	-	-	-
Human resource development	1,978	1,982	1,904	78	-	-	-	-
Finance and resource management	6,723	8,647	8,577	70	-	-	-	-
Contracts and procurement	10,808	11,381	10,891	490	-	-	-	-
Chief technology officer	40,324	45,296	44,469	827	-	312	312	-
Property management	14,429	16,463	15,847	616	-	-	-	-
Contract appeals	764	768	765	3	-	-	-	-
Elections and ethics	4,805	4,815	4,325	490	-	847	847	-
Campaign finance	1,324	1,331	1,292	39	-	-	-	-
Public employee relations	776	779	682	97	-	-	-	-
Employee appeals	1,536	1,543	1,438	105	-	-	-	-
Council of governments	430	430	430	-	496	496	496	-
Corporation counsel	28,979	34,531	33,975	556	16,233	16,398	15,544	854
Inspector general	9,041	10,397	9,991	406	1,243	1,296	1,180	116
Chief financial officer	93,211	95,592	95,474	118	1,031	1,452	844	608
Total governmental direction and support	**261,068**	**281,367**	**272,404**	**8,964**	**100,851**	**274,687**	**120,297**	**154,390**
Economic development and regulation:								
Business services and economic development	4,634	15,328	14,962	366	-	-	-	-
Office of planning	6,062	6,588	5,946	642	450	604	458	146
Local business development	1,040	1,044	982	62	-	-	-	-
Motion picture and television development	564	567	516	51	-	-	-	-
Office of zoning	2,581	2,590	2,457	133	-	-	-	-
Housing and community development	2,340	12,722	12,686	36	47,986	130,100	56,560	73,540
Alcoholic beverage regulation administration	-	-	-	-	-	1,007	161	846
Employment services	13,960	23,482	22,278	1,204	44,490	41,205	34,259	6,946
Real property assessment and appeals	342	344	337	7	-	-	-	-
Consumer and regulatory affairs	24,042	24,400	23,814	586	-	-	-	-
Public services commission	-	-	-	-	125	175	107	68
Office of people's counsel	-	-	-	-	-	-	-	-
Insurance regulation	200	200	200	-	-	-	-	-
Office of cable TV	-	-	-	-	-	-	-	-
Total economic development and regulation	**55,765**	**87,265**	**84,178**	**3,087**	**93,051**	**173,091**	**91,545**	**81,546**
Public safety and justice:								
Police	352,576	375,949	371,494	4,455	3,670	9,615	7,965	1,650
Fire and emergency medical services	144,926	151,014	149,226	1,788	-	-	-	-
Police and firefighter retirement contribution	112,100	112,100	112,100	-	-	-	-	-
Corrections	120,024	124,114	123,091	1,023	-	-	-	-
National guard	2,101	2,108	2,095	13	1,152	1,152	72	1,080
Emergency preparedness	3,253	3,265	3,007	258	1,777	937	282	655
Judicial disabilities and tenure	213	214	204	10	-	-	-	-
Judicial nomination	118	120	103	17	-	-	-	-
Citizen complaint review board	1,756	1,766	1,715	51	-	-	-	-
Advisory commission on sentencing	581	583	537	46	-	-	-	-
Office of the Chief Medical Examiner	6,650	6,673	6,252	421	-	-	-	-
Office of adminstrative hearings	5,300	4,910	3,621	1,289	-	-	-	-
Corrections information council	155	155	49	106	-	-	-	-
Criminal justice coordinating council	260	262	248	14	1,290	1,262	1,254	8
Forensic health and science laboratory	800	800	730	70	-	-	-	-
Emergency and disaster	-	-	-	-	-	1,331	-	1,331
Office of unified communications	10,036	10,168	8,325	1,843	-	-	-	-
Total public safety and justice	**760,849**	**794,201**	**782,797**	**11,404**	**7,889**	**14,297**	**9,573**	**4,724**

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2005
($000s)

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Governmental direction and support:								
City Council	$ -	-	-	-	-	-	-	-
DC Auditor	-	-	-	-	-	-	-	-
Advisory neighborhood commissions	-	-	-	-	-	-	-	-
Mayor	-	139	112	27	-	-	-	-
Executive secretary	-	97	80	17	415	415	364	51
Citywide call center	-	-	-	-	-	-	-	-
City administrator	-	-	-	-	24,760	24,760	2,796	21,964
Risk management	-	-	-	-	-	-	-	-
Personnel	-	-	-	-	503	503	372	131
Human resource development	-	-	-	-	-	-	-	-
Finance and resource management	-	-	-	-	964	964	854	110
Contracts and procurement	-	-	-	-	390	390	289	101
Chief technology officer	-	-	-	-	-	-	-	-
Property management	-	-	-	-	3,625	3,625	1,921	1,704
Contract appeals	-	-	-	-	-	-	-	-
Elections and ethics	-	-	-	-	-	-	-	-
Campaign finance	-	-	-	-	-	-	-	-
Public employee relations	-	-	-	-	-	-	-	-
Employee appeals	-	-	-	-	-	-	-	-
Council of governments	-	-	-	-	-	-	-	-
Corporation counsel	-	-	-	-	14,908	13,908	5,871	8,037
Inspector general	-	-	-	-	-	-	-	-
Chief financial officer	-	-	-	-	9,180	10,215	9,907	308
Total governmental direction and support	**-**	**236**	**192**	**44**	**54,745**	**54,780**	**22,374**	**32,406**
Economic development and regulation:								
Business services and economic development	-	26	21	5	17,675	17,330	15,396	1,934
Office of planning	-	100	17	83	-	-	-	-
Local business development	-	-	-	-	-	-	-	-
Motion picture and television development	-	-	-	-	-	-	-	-
Office of zoning	-	-	-	-	-	-	-	-
Housing and community development	-	-	-	-	94,940	94,865	34,805	60,060
Alcoholic beverage regulation administration	-	-	-	-	4,877	4,145	3,105	1,040
Employment services	-	-	-	-	26,436	25,743	18,012	7,731
Real property assessment and appeals	-	-	-	-	-	-	-	-
Consumer and regulatory affairs	-	-	-	-	13,112	13,854	11,128	2,726
Public services commission	125	125	88	37	7,406	6,965	6,551	414
Office of people's counsel	-	-	-	-	3,885	3,988	3,830	158
Insurance regulation	-	-	-	-	13,475	13,475	11,566	1,909
Office of cable TV	-	-	-	-	4,000	5,058	4,885	173
Total economic development and regulation	**125**	**251**	**126**	**125**	**185,806**	**185,423**	**109,278**	**76,145**
Public safety and justice:								
Police	-	208	151	57	9,430	9,430	6,360	3,070
Fire and emergency medical services	9	9	-	9	60	60	-	60
Police and firefighter retirement contribution	-	-	-	-	-	-	-	-
Corrections	-	-	-	-	-	500	286	214
National guard	-	-	-	-	-	-	-	-
Emergency preparedness	-	-	-	-	-	-	-	-
Judicial disabilities and tenure	-	-	-	-	-	-	-	-
Judicial nomination	-	-	-	-	-	-	-	-
Citizen complaint review board	-	-	-	-	-	-	-	-
Advisory commission on sentencing	-	-	-	-	-	-	-	-
Office of the Chief Medical Examiner	-	-	-	-	112	112	110	2
Office of adminstrative hearings	-	-	-	-	183	183	-	183
Corrections information council	-	-	-	-	-	-	-	-
Criminal justice coordinating council	-	-	-	-	-	-	-	-
Forensic health and science laboratory	-	-	-	-	-	-	-	-
Emergency and disaster	-	-	-	-	-	-	-	-
Office of unified communications	-	-	-	-	20,181	16,081	15,918	163
Total public safety and justice	**9**	**217**	**151**	**66**	**29,966**	**26,366**	**22,674**	**3,692**

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2005
($000s)

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Public education system:								
Public schools	$ 760,494	776,590	776,578	12	136,596	151,150	138,710	12,440
AY06 public school expenditure	-	4,799	4,799	-	-	-	-	-
Teachers' retirement contribution	9,200	9,200	9,147	53	-	-	-	-
State education office	10,015	10,504	10,056	448	72,197	63,238	55,677	7,561
Public charter schools	196,802	152,916	129,905	23,011	-	-	-	-
AY06 public charter school expenditure	-	58,419	58,419	-	-	-	-	-
University	49,602	51,581	51,581	-	-	-	-	-
Public library	28,978	30,793	29,820	973	1,093	893	831	62
Arts and humanities	3,618	3,819	3,815	4	920	973	943	30
Total public education system	**1,058,709**	**1,098,621**	**1,074,120**	**24,501**	**210,806**	**216,254**	**196,161**	**20,093**
Human support services:								
Human development	257,132	268,940	268,940	-	180,357	187,630	187,594	36
Child and family services	142,235	158,627	158,577	50	37,890	39,286	38,593	693
Dept of mental health	153,228	185,256	189,341	(4,085)	5,059	4,862	3,815	1,047
Health	513,938	523,354	516,778	6,576	1,097,636	1,102,298	1,052,138	50,160
Recreation and parks	34,303	34,504	34,437	67	-	116	115	1
Aging	14,732	14,740	13,990	750	6,151	7,088	6,948	140
Unemployment compensation contribution	8,124	5,824	5,198	626	-	-	-	-
Employee disability compensation	29,600	29,013	29,013	-	-	-	-	-
Human rights	2,281	2,291	2,215	76	233	2,820	1,900	920
Children investment trust	5,068	5,068	5,068	-	-	-	-	-
Latino affairs	3,655	3,921	3,874	47	-	-	-	-
Energy	427	1,428	1,427	1	8,807	8,908	8,232	676
Asian and pacific islander affairs	353	355	351	4	-	-	-	-
Veterans' affairs	239	240	234	6	-	-	-	-
Total human support services	**1,165,315**	**1,233,561**	**1,229,443**	**4,118**	**1,336,133**	**1,353,008**	**1,299,335**	**53,673**
Public works:								
Public works	86,981	89,093	88,869	224	-	-	-	-
Department of transportation	26,815	26,992	26,989	3	4,000	11,180	11,180	-
Department of motor vehicles	28,526	31,596	30,751	845	-	-	-	-
Taxicab commission	795	796	762	34	-	-	-	-
Washington metropolitan area transit commission	95	95	95	-	-	-	-	-
Washington metropolitan area transit authority	164,153	165,353	165,303	50	(20)	2,480	2,480	-
School transit subsidy	4,670	4,670	4,657	13	-	-	-	-
Total public works	**312,035**	**318,595**	**317,426**	**1,169**	**3,980**	**13,660**	**13,660**	**-**
Other:								
Contingency reserves - baseball	-	29,743	29,743	-	-	-	-	-
Repayment of bonds and interest	347,700	342,900	342,683	217	-	-	-	-
Bond fiscal charge paid from bond proceeds	-	15,000	4,935	10,065	-	-	-	-
Interest on short term borrowing	4,000	4,666	4,666	-	-	-	-	-
Certificates of participation	11,252	10,952	10,904	48	-	-	-	-
Settlements and judgments	20,270	19,370	19,323	47	-	-	-	-
Emergency planning and security costs	-	-	-	-	14,880	19,805	16,697	3,108
Wilson Building	3,633	3,633	3,259	374	-	-	-	-
Workforce investment	38,114	462	-	462	-	-	-	-
Tax increment financing	-	5,557	5,557	-	-	-	-	-
Equipment lease operating	23,109	22,143	22,058	85	-	-	-	-
Pay-go contingency	43,137	364	-	364	-	-	-	-
Pay-go capital	6,531	20,581	20,550	31	-	-	-	-
Cash reserve	50,000	1,827	-	1,827	-	-	-	-
Non-departmental agency	4,000	80	-	80	-	-	-	-
Storm water	-	-	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-	-	-
Housing finance agency	-	-	-	-	-	-	-	-
National capital revitalization corporation	-	-	-	-	-	-	-	-
Total other	**551,746**	**477,278**	**463,678**	**13,600**	**14,880**	**19,805**	**16,697**	**3,108**
Total budget	$ **4,165,487**	**4,290,888**	**4,224,046**	**66,843**	**1,767,590**	**2,064,802**	**1,747,268**	**317,534**

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2005
($000s)

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Public education system:								
Public schools	$ 3,670	5,281	4,241	1,040	7,330	8,426	7,356	1,070
FY06 public school expenditure	-	-	-	-	-	-	-	-
Teachers' retirement contribution	-	-	-	-	-	-	-	-
State education office	-	5	5	-	176	176	28	148
Public charter schools	-	-	-	-	-	-	-	-
FY06 public charter school expenditure	-	-	-	-	-	-	-	-
University	-	-	-	-	-	-	-	-
Public library	110	225	62	163	651	651	353	298
Arts and humanities	-	-	-	-	800	800	320	480
Total public education system	**3,780**	**5,511**	**4,308**	**1,203**	**8,957**	**10,053**	**8,057**	**1,996**
Human support services:								
Human development	-	83	45	38	2,132	6,499	6,228	271
Child and family services	414	636	204	432	650	650	650	-
Dept of mental health	-	-	(1)	1	4,808	4,808	4,796	12
Health	150	282	128	154	17,891	19,939	13,626	6,313
Recreation and parks	839	926	426	500	1,600	1,740	915	825
Aging	-	-	-	-	-	-	-	-
Unemployment compensation contribution	-	-	-	-	-	-	-	-
Employee disability compensation	-	-	-	-	-	-	-	-
Human rights	-	-	-	-	-	-	-	-
Children investment trust	-	-	-	-	-	-	-	-
Latino affairs	-	20	20	-	-	-	-	-
Energy	7,997	12	12	-	360	2,981	2,879	102
Asian and pacific islander affairs	-	-	-	-	-	-	-	-
Veterans' affairs	-	-	-	-	-	-	-	-
Total human support services	**9,400**	**1,959**	**834**	**1,125**	**27,441**	**36,617**	**29,094**	**7,523**
Public works:								
Public works	-	-	-	-	2,793	4,940	3,306	1,634
Department of transportation	-	68	68	-	538	1,023	779	244
Department of motor vehicles	-	-	-	-	12,107	10,867	7,045	3,822
Taxicab commission	-	-	-	-	463	463	441	22
Washington metropolitan area transit commission	-	-	-	-	-	-	-	-
Washington metropolitan area transit authority	-	-	-	-	-	-	-	-
School transit subsidy	-	-	-	-	-	-	-	-
Total public works	**-**	**68**	**68**	**-**	**15,901**	**17,293**	**11,571**	**5,722**
Other:								
Contingency reserves - baseball	-	-	-	-	-	-	-	-
Repayment of bonds and interest	-	-	-	-	-	-	-	-
Bond fiscal charge paid from bond proceeds	-	-	-	-	-	-	-	-
Interest on short term borrowing	-	-	-	-	-	-	-	-
Certificates of participation	-	-	-	-	-	-	-	-
Settlements and judgments	-	-	-	-	-	-	-	-
Emergency planning and security costs	-	-	-	-	-	-	-	-
Wilson Building	-	-	-	-	-	-	-	-
Workforce investment	-	-	-	-	-	-	-	-
Tax increment financing	-	-	-	-	-	-	-	-
Equipment lease operating	-	-	-	-	-	-	-	-
Pay-go contingency	-	-	-	-	-	-	-	-
Pay-go capital	-	-	-	-	-	-	-	-
Cash reserve	-	-	-	-	-	-	-	-
Non-departmental agency	-	-	-	-	9,946	1,034	-	1,034
Storm water	-	-	-	-	3,792	3,792	2,826	966
Retirement board administration	-	-	-	-	15,277	15,529	12,548	2,981
Housing finance agency	-	-	-	-	-	6,083	-	6,083
National capital revitalization corporation	-	-	-	-	7,849	7,849	-	7,849
Total other	**-**	**-**	**-**	**-**	**36,864**	**34,287**	**15,374**	**18,913**
Total budget	**13,314**	**8,242**	**5,679**	**2,563**	**359,680**	**364,819**	**218,422**	**146,397**

Exhibit D-3

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2005
($000s)

	Local Source			Federal Resources		
	Original Budget	Repro-gramming	Revised Budget	Original Budget	Repro-gramming	Revised Budget
Revenues and Sources:						
Taxes:						
Property taxes	$ 1,068,108	80,202	1,148,310	-	-	-
Sales and use taxes	809,326	31,665	840,991	-	-	-
Income taxes	1,284,753	124,773	1,409,526	-	-	-
Other taxes	540,468	(4,024)	536,444	-	-	-
Total taxes	3,702,655	232,616	3,935,271	-	-	-
Licenses and permits	68,457	617	69,074	-	-	-
Fines and forfeits	116,933	(6,918)	110,015	-	-	-
Charges for services	57,621	40	57,661	-	-	-
Miscellaneous	99,493	2,092	101,585	-	-	-
Private & Other	-	-	-	-	-	-
Federal contributions	-	-	-	80,035	(2,741)	77,294
Operating grant	-	-	-	1,687,555	256,533	1,944,088
Fund balance released from restrictions	49,365	17,960	67,325	-	43,420	43,420
Transfer in from Lottery Board	73,100	-	73,100	-	-	-
Total revenues and sources	**4,167,624**	**246,407**	**4,414,031**	**1,767,590**	**297,212**	**2,064,802**
Expenditures and Uses:						
Governmental direction and support	261,068	20,299	281,367	100,851	173,836	274,687
Economic development and regulation	55,765	31,500	87,265	93,051	80,040	173,091
Public safety and justice	760,849	33,352	794,201	7,889	6,408	14,297
Public education system	1,058,709	(23,306)	1,035,403	210,806	5,448	216,254
Public education AY06 expenditure	-	63,218	63,218	-	-	-
Human support services	1,165,315	68,246	1,233,561	1,336,133	16,875	1,353,008
Public works	312,035	6,560	318,595	3,980	9,680	13,660
Workforce investments	38,114	(37,652)	462	-	-	-
Wilson Building	3,633	-	3,633	-	-	-
Contingency reserves - baseball	-	29,743	29,743	-	-	-
Repayment of bonds and interest	347,700	(4,800)	342,900	-	-	-
Bond fiscal charge paid from bond proceeds	-	15,000	15,000	-	-	-
Interest on short term borrowing	4,000	666	4,666	-	-	-
Certificates of participation	11,252	(300)	10,952	-	-	-
Tax increment financing	-	5,557	5,557	-	-	-
Equipment lease operating	23,109	(966)	22,143	-	-	-
Pay-go contingency	43,137	(42,773)	364	-	-	-
Pay-go capital	6,531	14,050	20,581	-	-	-
Cash reserve	50,000	(48,173)	1,827	-	-	-
Non departmental	4,000	(3,920)	80	-	-	-
Emergency planning and security costs	-	-	-	14,880	4,925	19,805
Storm water	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-
Housing finance agency	-	-	-	-	-	-
Settlements and judgments	20,270	(900)	19,370	-	-	-
National capital revitalization corporation	-	-	-	-	-	-
Total expenditures and uses	**4,165,487**	**125,401**	**4,290,888**	**1,767,590**	**297,212**	**2,064,802**
Excess of Revenues and Sources Over Expenditures and Uses	**$ 2,137**	**121,006**	**123,143**	-	-	-

See Accompanying Independent Auditors' Report

Exhibit D-3

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2005
($000s)

	Private and Other			Totals		
	Original Budget	Repro-gramming	Revised Budget	Original Budget	Repro-gramming	Revised Budget
Revenues and Sources:						
Taxes:						
Property taxes	$ -	-	-	1,068,108	80,202	1,148,310
Sales and use taxes	-	-	-	809,326	31,665	840,991
Income taxes	-	-	-	1,284,753	124,773	1,409,526
Other taxes	-	-	-	540,468	(4,024)	536,444
Total taxes	-	-	-	3,702,655	232,616	3,935,271
Licenses and permits	-	-	-	68,457	617	69,074
Fines and forfeits	-	-	-	116,933	(6,918)	110,015
Charges for services	-	-	-	57,621	40	57,661
Miscellaneous	-	-	-	99,493	2,092	101,585
Private & Other	257,344	102,261	359,605	257,344	102,261	359,605
Federal contributions	-	-	-	80,035	(2,741)	77,294
Operating grant	-	-	-	1,687,555	256,533	1,944,088
Fund balance released from restrictions	115,650	(102,194)	13,456	165,015	(40,814)	124,201
Transfer in from Lottery Board	-	-	-	73,100	-	73,100
Total revenues and sources	**372,994**	**67**	**373,061**	**6,308,208**	**543,686**	**6,851,894**
Expenditures and Uses:						
Governmental direction and support	54,745	271	55,016	416,664	194,406	611,070
Economic development and regulation	185,931	(257)	185,674	334,747	111,283	446,030
Public safety and justice	29,975	(3,392)	26,583	798,713	36,368	835,081
Public education system	12,737	2,827	15,564	1,282,252	(15,031)	1,267,221
Public education FY06 Expenditure	-	-	-	-	63,218	63,218
Human support services	36,841	1,735	38,576	2,538,289	86,856	2,625,145
Public works	15,901	1,460	17,361	331,916	17,700	349,616
Workforce investments	-	-	-	38,114	(37,652)	462
Wilson Building	-	-	-	3,633	-	3,633
Contingency reserves - baseball	-	-	-	-	29,743	29,743
Repayment of bonds and interest	-	-	-	347,700	(4,800)	342,900
Bond fiscal charge paid from bond proceeds	-	-	-	-	15,000	15,000
Interest on short term borrowing	-	-	-	4,000	666	4,666
Certificates of participation	-	-	-	11,252	(300)	10,952
Tax increment financing	-	-	-	-	5,557	5,557
Equipment lease operating	-	-	-	23,109	(966)	22,143
Pay-go contingency	-	-	-	43,137	(42,773)	364
Pay-go capital	-	-	-	6,531	14,050	20,581
Cash reserve	-	-	-	50,000	(48,173)	1,827
Non departmental	9,946	(8,912)	1,034	13,946	(12,832)	1,114
Emergency planning and security costs	-	-	-	14,880	4,925	19,805
Storm water	3,792	-	3,792	3,792	-	3,792
Retirement board administration	15,277	252	15,529	15,277	252	15,529
Housing finance agency	-	6,083	6,083	-	6,083	6,083
Settlements and judgments	-	-	-	20,270	(900)	19,370
National capital revitalization corporation	7,849	-	7,849	7,849	-	7,849
Total expenditures and uses	**372,994**	**67**	**373,061**	**6,306,071**	**422,680**	**6,728,751**
Excess of Revenues and Sources Over Expenditures and Uses	**$ -**	**-**	**-**	**2,137**	**121,006**	**123,143**

1. Financial Trends

These schedules contain trend information to better understand how the District's financial performance and well-being have changed over time.

Net Assets By Component **Exhibit S-1A**
Last Four Fiscal Years
(accrual basis of accounting, dollars in thousands)

NET ASSETS	2002	2003	2004	2005
Governmental activities				
Invested in capital assets, net of related debt	$ 656,901	$ 518,223	$ 774,533	$ 1,069,731
Restricted	834,006	870,284	807,839	930,021
Unrestricted	(625,908)	(593,786)	(370,474)	(249,088)
Total governmental activities net assets	864,999	794,721	1,211,898	1,750,664
Business-type activities				
Invested in capital assets, net of related debt	1,495	1,354	17,927	16,183
Restricted	271,361	262,148	288,224	322,893
Unrestricted	1,990	37,442	34,829	34,968
Total business-type activities net assets	274,846	300,944	340,980	374,044
Primary government				
Invested in capital assets, net of related debt	658,396	519,577	792,460	1,085,914
Restricted	1,105,367	1,132,432	1,096,063	1,252,914
Unrestricted	(623,918)	(556,344)	(335,645)	(214,120)
Total primary government net assets	$ 1,139,845	$ 1,095,665	$ 1,552,878	$ 2,124,708

Note: As a result of GASB 34 implementation in FY2002, only four fiscal years are presented.
Source: Office of Financial Operations and Systems

Changes in Net Assets **Exhibit S-1B**
Last Four Fiscal Years
(accrual basis of accounting, dollars in thousands)

	2002	2003	2004	2005
Governmental activities				
Expenses				
Governmental direction and support	$ 471,609	$ 525,072	$ 554,614	$ 641,964
Economic development and regulation	323,804	252,716	253,311	283,186
Public safety and justice	920,599	936,797	1,007,755	1,036,120
Public education system	1,153,719	1,168,545	1,301,807	1,374,538
Human support services	2,267,597	2,572,881	2,537,195	2,663,556
Public works	279,506	312,704	313,580	307,247
Public transportation	184,883	272,726	162,602	167,783
Interest on long-term debt	175,241	178,301	189,697	201,882
Total governmental activities expenses	5,776,958	6,219,742	6,320,561	6,676,276
Program revenues				
Charges for services, fees, fines & forfeitures:				
Fines and forfeitures	88,495	90,237	102,828	111,146
Licenses and permits	52,003	62,189	62,968	82,093
Charges for services	145,546	170,735	134,314	133,923
Operating grants & contributions	1,890,544	1,833,060	2,060,973	2,098,723
Capital grants & contributions	161,450	176,449	151,334	112,704
Total governmental activities program revenues	2,338,038	2,332,670	2,512,417	2,538,589
Net (expenses)/revenues	(3,438,920)	(3,887,072)	(3,808,144)	(4,137,687)
General revenues				
Taxes:				
Property taxes	809,069	899,665	1,017,653	1,150,672
Sales and use taxes	750,060	779,920	828,391	957,394
Income and franchise taxes	1,160,423	1,167,452	1,299,009	1,472,432
Gross receipts taxes	231,786	261,643	271,897	295,819
Other taxes	283,146	273,191	379,521	377,213
Grants and contributions - unrestricted	-	25,070	24,543	-
Investment earnings	19,283	13,341	16,211	39,811
Miscellaneous	333,943	325,529	314,596	311,662
Special items	(171,094)	-	-	-
Transfers	63,000	37,574	73,500	71,450
Total governmental activities general revenues	3,479,616	3,783,385	4,225,321	4,676,453
Change in net assets --- governmental activities	$ 40,696	$ (103,687)	$ 417,177	$ 538,766
Business activities				
Expenses				
Lottery and games	$ 148,670	$ 166,185	$ 167,938	$ 164,066
Unemployment compensation	191,043	165,045	113,888	92,728
Nursing home services	-	34,687	33,023	35,066
Total business-type activities expenses	339,713	365,917	314,849	291,860
Program revenues				
Charges for services, fees, fines & forfeitures:				
Lottery and games	211,151	237,890	241,133	234,931
Unemployment compensation	-	-	-	-
Nursing home services	-	34,124	30,907	32,184
Operating grants & contributions	49,308	55,356	26,588	16,707
Capital grants & contributions	-	-	15,464	-
Total business-type activities program revenues	260,459	327,370	314,092	283,822
Net (expenses)/revenues	(79,254)	(38,547)	(757)	(8,038)
General revenues				
Taxes:				
Other taxes	104,945	82,626	97,196	92,985
Investment earnings	18,978	19,332	16,847	18,887
Miscellaneous	-	261.00	250	680
Transfers	(63,000)	(37,574)	(73,500)	(71,450)
Total business-type activities general revenues	60,923	64,645	40,793	41,102
Change in net assets --- business-type activities	$ (18,331)	$ 26,098	$ 40,036	$ 33,064
Total primary government				
Expenses	$ 6,116,671	$ 6,585,659	$ 6,635,410	$ 6,968,136
Program revenues	2,598,497	2,660,040	2,820,257	2,822,411
Net (expenses)/revenues	(3,518,174)	(3,925,619)	(3,815,153)	(4,145,725)
General revenues	3,540,539	3,848,030	4,272,366	4,717,555
Change in net assets --- primary government	$ 22,365	$ (73,090)	$ 457,213	$ 571,830

Note: As a result of GASB 34 implementation in FY2002, only four fiscal years are presented.
Source: Office of Financial Operations and Systems

Fund Balances, Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting, dollars in thousands)

Exhibit S-1C

	2002	2003	2004	2005
General Fund				
Reserved	$ 545,414	$ 568,243	$ 607,903	$ 1,110,770
Unreserved	319,914	329,114	607,112	473,913
Total general fund	865,328	897,357	1,215,015	1,584,683
All other governmental funds				
Reserved	441,696	302,041	283,205	336,441
Unreserved, reported in:				
Special revenue funds	31,751	-	-	-
Capital project funds	(472,305)	(169,287)	(273,432)	(312,161)
Total all other governmental funds	$ 1,142	$ 132,754	$ 9,773	$ 24,280

Note: As a result of GASB 34 implementation in FY2002, only four fiscal years are presented.
Source: Office of Financial Operations and Systems

Changes in Fund Balances, Governmental Funds **Exhibit S-1D**
Last Four Fiscal Years
(modified accrual basis of accounting, dollars in thousands)

	2002	2003	2004	2005
REVENUES				
Taxes	$ 3,229,809	$ 3,384,093	$ 3,806,906	$ 4,251,191
Fines and forfeits	88,495	90,238	102,828	111,146
Licenses and permits	52,003	62,189	62,968	82,093
Charges for services	145,546	170,736	134,314	133,923
Investment earnings	19,283	13,341	16,211	39,811
Miscellaneous	332,861	320,460	305,039	311,573
Federal contributions	490,373	380,100	393,928	382,966
Operating grants	1,561,621	1,555,404	1,842,922	1,828,461
Total revenues	5,919,991	5,976,561	6,665,116	7,141,164
EXPENDITURES				
Governmental direction and support	366,981	415,591	483,185	590,344
Economic development and regulation	223,760	224,811	236,220	267,335
Public safety and justice	899,116	907,670	984,062	1,034,456
Public education system	1,143,281	1,155,297	1,284,448	1,340,767
Human support services	2,249,303	2,445,336	2,563,646	2,657,848
Public works	149,302	164,753	164,231	175,300
Public transportation	184,883	272,726	162,602	167,783
Debt service:				
Principal	138,575	149,792	152,086	183,845
Interest and other charges	189,006	178,301	189,697	202,387
Fiscal charges	-	15,338	13,721	9,277
Total debt service	327,581	343,431	355,504	395,509
Subtotal expenditures	5,544,207	5,929,615	6,233,898	6,629,342
Capital outlay	905,418	762,145	666,649	615,089
Total expenditures	6,449,625	6,691,760	6,900,547	7,244,431
Excess of revenues over(under) expenditures	(529,634)	(715,199)	(235,431)	(103,267)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	408,180	1,019,873	325,726	386,370
Premium (discount) from sale of bonds	-	-	-	14,478
Payment to refunded bond escrow agent	(69,487)	(234,179)	-	-
Proceeds from bond escrow restructuring	-	-	9,557	89
Proceeds from capital lease	-	-	503	19
Equipment financing program	51,944	17,094	20,822	15,036
Transfer in	63,000	77,119	109,717	193,439
Transfers out	-	(34,476)	(36,217)	(121,989)
Total other financing sources (uses)	453,637	845,431	430,108	487,442
Net change in fund balances	$ (75,997)	$ 130,232	$ 194,677	$ 384,175
Other capital expenditures beside capital outlay	31,262	49,529	23,960	33,706
Total Capital expenditures	936,680	811,674	690,609	648,795
Debt service as a percentage of noncapital expenditures	5.94%	5.84%	5.72%	6.00%

Source: Office of Financial Operations and Systems

Tax Revenues by Source, Governmental Funds **Exhibit S-1E**
Last Four Fiscal Years
(modified accrual basis of accounting, dollars in thousands)

Fiscal Year	Property Tax			Sales and Use	Income and Franchise	Gross Receipts	Other Taxes	Total
	Real	Personal	Rental					
2002	$ 726,014	$ 65,208	$ 13,172	$ 750,060	$ 1,160,423	$ 231,786	$ 283,146	$ 3,229,809
2003	822,845	67,294	11,749	779,920	1,167,452	261,643	273,191	3,384,094
2004	947,690	63,558	16,840	828,391	1,299,009	271,897	379,521	3,806,906
2005	1,058,100	72,068	18,165	957,394	1,472,432	295,819	377,213	4,251,191

Note: As a result of GASB 34 implementation in FY2002, only four fiscal years are presented.
Source: Office of Financial Operations and Systems

2. Revenue Capacity

These schedules contain information regarding the District's most significant local revenue sources: property, income, and sales and use taxes.

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

Exhibit S-2A

Fiscal Year	Estimated Actual Value: Commercial Property	Estimated Actual Value: Residential Property (1) (2) (3)	Total Taxable	Tax Exempt	Total Value	Total Direct Tax Rate	Tax exempt as a % of total estimated actual value
1996	$ 20,657,057	22,041,463	42,698,520	29,749,392	72,447,912	N/A	41.1%
1997	19,373,225	22,884,675	42,257,900	30,170,470	72,428,370	N/A	41.7%
1998	19,726,319	23,461,404	43,187,723	31,517,981	74,705,704	N/A	42.2%
1999	18,734,933	23,710,565	42,445,498	30,620,782	73,066,280	N/A	41.9%
2000	19,357,631	23,912,435	43,270,066	30,900,682	74,170,748	1.43	41.7%
2001	21,960,148	22,268,968	44,229,116	32,086,134	76,315,250	1.45	42.0%
2002	27,619,604	24,902,543	52,522,147	33,812,037	86,334,184	1.39	39.2%
2003	29,684,430	28,379,237	58,063,667	35,728,289	93,791,956	1.38	38.1%
2004	33,752,889	32,701,220	66,454,109	43,234,068	109,688,177	1.35	39.4%
2005	36,905,213	49,982,554	86,887,767	43,219,725	130,107,492	1.37	33.2%

Note: Assessed value is 100 percent of estimated actual value.
Total direct tax rate for years 1996 - 1999 could not be determined

(1) After deduction of homestead exemption and credits against tax
(2) Does not reflect the 2002 & 2003 Cap Assessment of 25% for Class 01 with Homestead Exemptions
(3) Does not reflect the 2004 & 2005 Cap Assessment of 12% for Class 01 with Homestead

Source: Office of Tax and Revenue

Direct Property Tax Rates
Last Six Fiscal Years

Exhibit S-2B

Fiscal Year	Direct Property Tax Rate: Basic Rate	General Obligation Debt Service	Redevelopment Program	Total Direct
2000	0.73	0.70	-	1.43
2001	0.75	0.70	-	1.45
2002	0.79	0.60	-	1.39
2003	0.78	0.60	-	1.38
2004	0.90	0.45	-	1.35
2005	0.92	0.45	-	1.37

Note: Information prior to FY2000 is not available.
Source: Office of Tax and Revenue

Major Tax Rates
Last Ten Fiscal Years

Exhibit S-2C

	Property (per $100 of assessed value)						Sales and Use			Income and Franchise		Gross Receipt
	Residential		Commercial									
Fiscal Year	Owner occupied	Tenant occupied	Hotels	Improved	Unimproved	Personal	General (1)	Cigarette (2)	Motor Fuel (3)	Individual (4)	Business (5)	Public Utility (6)
1996	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10
1997	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10
1998	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10
1999	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10
2000	0.96	1.34	1.85	2.05	2.05	3.40	0.0575	0.65	0.20	.050-.095	0.09975	0.10
2001	0.96	1.15	1.85	1.95	1.95	3.40	0.0575	0.65	0.20	.050-.093	0.09975	0.10
2002	0.96	0.96	1.85	1.85	1.85	3.40	0.0575	0.65	0.20	.050-.093	0.09975	0.10
2003	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.093	0.09975	0.11
2004	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.093	0.09975	0.11
2005	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.090	0.09975	0.11

Source: Office of Tax and Revenue

(1) Of sales value
(2) Per package of 20
(3) Per gallon
(4) Of Taxable Income
(5) Of net income
(6) Of gross charges (gas, lighting, telephone)

Principal Property Taxpayers
Current Year and Nine Years Ago
(dollars in thousands)

Exhibit S-2D

	2005			1996			
Taxpayer	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	* Taxable Assessed Value		*** Rank	% of Total Taxable Assessed Value
MANUFACTURERS LIFE INSURANCE	$ 312,361	1	0.470%	$ N/A			New Lot 1997
WASHINGTON SQUARE LIMITED PARTNERSHIP	266,750	2	0.401%	198,726		1	0.471%
13TH & F ASSOCIATES LP & WMATA	259,190	3	0.390%	149,705	**	4	0.355%
CARR REALTY SQUARE 106 PARTNERSHIP	247,030	4	0.372%	177,776		2	0.422%
WELLS REIT/INDEPENDENCE SQUARE LLC	228,648	5	0.344%	148,707	**	5	0.353%
RUTH R ECKLES/WARNER INVESTMENTS LP, ET AL	217,037	6	0.327%	96,562	**	7	0.229%
1301 K STREET LP	202,588	7	0.305%	N/A			New Lot 1997
PARCEL 49C LP	201,766	8	0.304%	10,780		8	0.026%
METROPOLITAN SQUARE ASSOCIATES LLC	192,433	9	0.290%	161,515	**	3	0.383%
TEACHERS INSURANCE & ANNUITY ASSOCIATION	191,407	10	0.288%	102,815	**	6	0.244%

* Source 1996 RPT Account Status Report (Folio)
** Different ownership in 1996
*** 1996 exact rank can not be determined

Source: Office of Tax and Revenue

Ten Highest Assessed Values For Tax Exempt Properties **Exhibit S-2E**
Current Year
(dollars in thousands)

Property	Value
INTERNATIONAL FINANCE CORPORATION	$ 364,096
GEORGETOWN UNIVERSITY	331,222
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT	322,629
INTERNATIONAL MONETARY FUND	241,304
INTERNATIONAL MONETARY FUND	225,967
INTER-AMERICAN DEVELOPMENT BANK	200,389
AMERICAN UNIVERSITY	168,590
PROTESTANT EPISCOPAL CATHEDRAL FND DC	166,986
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT	138,392
WASHINGTON HOSPITAL CENTER	138,198

Source: Office of Tax and Revenue

Note: Duplicate property listings resulted from properties with multiple addresses.

Property Tax Levies and Collections **Exhibit S-2F**
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year Ended Sep 30	Taxes Levy	Tax Collections (1) Current	Subsequent Years (2)	Total	Percent of Collections to Levy Current	Total
1996	$ 700,171	$ 632,181	$ 48,905	$ 681,086	90.3%	97.3%
1997	648,166	606,435	21,002	627,437	93.6%	96.8%
1998	638,569	590,249	30,548	620,797	92.4%	97.2%
1999	637,647	554,064	29,078	583,142	86.9%	91.5%
2000	613,385	569,190	23,587	592,777	92.8%	96.6%
2001	669,016	576,965	58,359	635,324	86.2%	95.0%
2002	740,387	649,895	57,729	707,624	87.8%	95.6%
2003	847,980	774,989	63,110	838,099	91.4%	98.8%
2004	1,011,891	898,352	47,701	946,053	88.8%	93.5%
2005	1,198,319	1,021,836	46,314	1,068,150	85.3%	89.1%

(1) Approximately 45% of real property tax collections are deposited with fiscal agents, such as commercial banks, for payment of matured bonds and interest.

(2) Subsequent year collections related to collections on prior year levies.

Calculations for Exhibit S-2F have been done based on methodology used for the FY2003 CAFR. Current year tax levy amounts include new billings for prior year penalties and interest. Subsequent year collections relate to collections on prior year levies.

Source: Office of Tax and Revenue

Personal Income Tax Rates
Last Ten Fiscal Years

Exhibit S-2G

Year	Top Rate	Top Income Tax Rate Is Applied to Taxable Income in Excess of: Single	Married Filling Jointly	Head of Household	* Average Effective Rate
1996	9.50%	20,000	20,000	20,000	6.03%
1997	9.50%	20,000	20,000	20,000	6.32%
1998	9.50%	20,000	20,000	20,000	6.39%
1999	9.50%	20,000	20,000	20,000	6.47%
2000	9.50%	20,000	20,000	20,000	6.39%
2001	9.30%	30,000	30,000	30,000	6.60%
2002	9.30%	30,000	30,000	30,000	6.55%
2003	9.30%	30,000	30,000	30,000	6.66%
2004	9.30%	30,000	30,000	30,000	6.65%
2005	9.00%	30,000	30,000	30,000	N/A

N/A: Not Available

* Fiscal year personal income tax collections divided by prior-year personal income.

Source: Office of Tax and Revenue

Personal Income Tax Filers and Liability by Income Level
Current Year and Nine Years Ago
(dollars, except income level, are in thousands)

Exhibit S-2H

Income Level	2005 Number of Filers	2005 Percentage of Total	2005 Personal Income Tax Liability	2005 Percentage of Total	1996 Number of Filers	1996 Percentage of Total	1996 Personal Income Tax Liability	1996 Percentage of Total
$100,001 and higher	31,292	12.44%	$ 678,995,823	64.34%	18,961	6.59%	$ 248,736,980	41.12%
$75,001 -- $100,000	15,773	6.27%	89,636,769	8.49%	11,174	3.88%	60,640,889	10.02%
$50,001 -- $75,000	30,699	12.20%	113,560,195	10.76%	24,553	8.53%	91,636,207	15.15%
$25,001 -- $50,000	70,234	27.92%	128,959,792	12.22%	77,216	26.84%	141,050,591	23.32%
$10,001 -- $25,000	60,772	24.15%	39,204,448	3.71%	91,897	31.94%	57,231,942	9.46%
$10,000 and lower	42,825	17.02%	5,037,392	0.48%	63,920	22.22%	5,677,286	0.94%
Total	251,595	100.00%	$ 1,055,394,419	100.00%	287,721	100.00%	$ 604,973,895	100.00%

Source: Office of Tax and Revenue

3. Debt Capacity

These schedules present information showing the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Ratios of General Bonded Debt Outstanding **Exhibit S-3A**
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds (GO)	Actual Value of Taxable Property	GO Bonds as a Percentage of Actual Value of Taxable Property	GO Debt Per Capita
1996	$ 2,965,756	$ 42,698,520	6.95%	$ 5,181
1997	3,084,763	42,257,900	7.30%	5,433
1998	3,091,403	43,187,723	7.16%	5,469
1999	3,098,582	42,445,498	7.30%	5,434
2000	3,109,728	43,270,066	7.19%	5,442
2001	2,582,017	44,229,116	5.84%	4,535
2002	2,670,573	52,522,147	5.08%	4,730
2003	3,251,118	58,063,667	5.60%	5,830
2004	3,418,933	66,454,109	5.14%	6,169
2005	3,632,198	86,887,767	4.18%	6,598

Ratios of Outstanding Debt by Type **Exhibit S-3B**
Last Ten Fiscal Years
(dollars in thousands, except per capita)

	Governmental Activities											
Fiscal Year	General Obligation Bonds	TIF Bonds	QZAB	Certificates of Participation	Capital Leases	Tobacco Bonds*	Total Debt	Personal Income	Total Debt as a Percentage of Personal Income	Population	Total Debt Per Capita	Total 'Tax Supported Debt' Per Capita*
1996	$ 2,965,756	-	-	-	77,485	-	$ 3,043,241	18,766,180	16.2	572,377	$ 5,317	5,317
1997	3,084,763	-	-	-	129,715	-	3,214,478	19,579,959	16.4	567,736	5,662	5,662
1998	3,091,403	-	-	-	124,181	-	3,215,584	20,562,335	15.6	565,230	5,689	5,689
1999	3,098,582	-	-	-	132,189	-	3,230,771	21,114,995	15.3	570,213	5,666	5,666
2000	3,109,728	-	-	-	131,167	-	3,240,895	23,102,223	14.0	571,437	5,671	5,671
2001	2,582,017	6,900	-	-	121,564	521,105	3,231,586	25,618,196	12.6	569,408	5,675	4,760
2002	2,670,573	126,545	3,582	-	157,057	514,280	3,472,037	26,125,315	13.3	564,643	6,149	5,238
2003	3,251,118	125,524	3,327	129,530	90,458	506,550	4,106,507	26,651,113	15.4	557,620	7,364	6,456
2004	3,418,933	124,009	3,071	128,345	84,456	502,740	4,261,554	28,839,355	14.8	554,239	7,689	6,782
2005	3,632,198	117,525	2,815	120,760	76,390	498,740	4,448,428	N/A	N/A	550,521	8,080	7,174

Note: There are no business type activities with outstanding debt

* Tobacco bonds are not supported by general tax revenues and are not included in the 'Tax Supported Debt' Per Capita calculation.

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Exhibit S-3C

Debt Service Cost Margin Calculation for Fiscal Year 2005:

General fund revenue		$ 4,844,459
Debt service cost limitation (17% of general fund revenue)		823,558
Debt expenditure applicable to limit:		
Principal	$ 173,361	
Interest	164,980	
Subtotal for current year	338,341	
Highest future year debt service cost	$ 359,735	
Total debt service cost subject to the limitation		359,735
Debt service cost margin		$ 463,823

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Debt service cost limitation	$ 507,012	$ 530,194	$ 573,851	$ 608,902	$ 688,754	$ 718,024	$ 622,331	$ 627,516	$ 735,472	$ 823,558
Highest future year debt service cost	403,739	428,918	400,504	346,992	327,044	270,910	284,114	319,160	339,003	359,735
Debt service cost margin	$ 103,273	$ 101,276	$ 173,347	$ 261,910	$ 361,710	$ 447,114	$ 338,217	$ 308,356	$ 396,469	$ 463,823
Total debt service cost subject to the limit as a percentage of debt service cost limit	79.6 %	80.9 %	69.8 %	57.0 %	47.5 %	37.7 %	45.7 %	50.9 %	46.1 %	43.7 %
Debt limit ratio	11.1 %	11.3 %	15.8 %	12.7 %	9.7 %	6 %	7.8 %	8.6 %	7.8 %	7.4 %

Note: Under the District of Columbia Self-Government and Governmental Reorganization Act, no long term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all long term debt to exceed 17 percent of the revenues of the fiscal year in which the debt is issued. The debt service percent is calculated using the highest fiscal year debt service divided by the total revenues. The debt service percent limitation was increased from 14 to 17 percent in fiscal year 1998 as a result of the National Capital Revitalization and Self-Government Improvement Act of 1997, accounting for the decrease in revenues from the repeal of the Federal payment in lieu of taxes and the loss of court revenues.

Pledged-Revenue Coverage
Last Four Fiscal Years
(dollars in thousands)

Exhibit S-3D

	Tax Increment Financing Debts			
	Sales Tax	Debt Service		
Fiscal Year	Increment	Principal	Interest	Coverage
2002	$ 33	$ -	$ 33	100.00%
2003	1,236	1,104	132	100.00%
2004	2,335	1,515	4,265	40.40%
2005	9,270	6,484	4,933	81.19%

Note: Details regarding the District's outstanding debt can be found in the Notes to the Basic Financial Statements.
The debt service payment for FY 2005 includes $5,557 paid out of the bond service reserve fund.

4. Demographic and Economic Information

These schedules offer demographic and economic data to help explain the environment within which the District's financial activities take place. This information also facilitates comparisons of financial statement information over time and among governments.

Demographic and Economic Statistics
Last Ten Fiscal Years

Exhibit S-4A

Fiscal Year	Popula-tion (1)	Personal Income (2)(3)	Per Capita Income (2)	Median Age (1)	Employ-ment (4)	Unemploy-ment Rate (4)	Claims Accepted (5)	Claims Rejected (5)
1996	572,377	18,766,180	32,786	N/A	627,600	8.6%	45,142	18,821
1997	567,736	19,579,959	34,488	36.0	619,100	8.3%	38,851	15,898
1998	565,230	20,562,335	36,379	36.3	614,600	8.2%	28,202	8,412
1999	570,213	21,114,995	37,030	37.2	620,600	6.9%	22,440	7,475
2000	571,437	23,102,223	40,428	35.4	645,200	5.8%	22,113	6,002
2001	569,408	25,618,196	44,731	35.5	654,400	6.0%	18,189	6,514
2002	564,643	26,125,315	45,902	35.9	661,800	6.6%	26,166	10,706
2003	557,620	26,651,113	47,305	35.7	665,900	7.0%	21,527	7,342
2004	554,239	28,839,355	52,101	35.1	670,500	7.8%	18,554	6,450
2005	550,521	N/A	N/A	N/A	677,900	7.5%	17,223	6,074

N/A: Not Available
(1) Source: Federal Bureau of the Census (As of July 1)
(2) Source: Federal Department of Commerce, Bureau of Economic Analysis
(3) In thousands
(4) Source: D.C. Department of Employment Services
(5) Source: D.C. Unemployment Compensation Office

Principal Employers
Current Year and Nine Years Ago **

Exhibit S-4B

	2004 **			1995		
Employer	Employees	Rank	% of Total Employment	Employees	Rank	% of Total Employment
Howard University	*	1	*	*	5	*
The George Washington University	*	2	*	*	1	*
Georgetown University	*	3	*	*	2	*
Washington Hospital Center	*	4	*	*	3	*
Children's National Medical Center	*	5	*	*	7	*
Fannie Mae	*	6	*	*	10	*
Howard University Hospital	*	7	*	*	12	*
American University	*	8	*	*	11	*
Georgetown University Hospital	*	9	*	*	9	*
Providence Hospital	*	10	*	*	16	*
George Washington University Hospital	*	18	*	*	4	*
Washington Post	*	12	*	*	6	*
Potomac Electric Power Company	*	24	*	*	8	*
Total	46,609		10.9%	43,262		11.5%

* This data is produced through the Quarterly Covered Employment and Wage (QCEW) Program, a Bureau of Labor Statistics federal/state cooperative statistical program. Release of data under this program is subject to the Confidential Information Protection and Statistical Efficiency Act of 2002. The District cannot release company specific employment information without the written consent of each of the companies that are included in the release of such data. As a result, we are only presenting rank and total employment information for the top ten principal employers.

** 2005 data will not be available until fiscal year 2006

5. Operating Information

These schedules contain service and infrastructure data to better understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

Operating Indicators by Function/Program
Last Ten Fiscal Years

Exhibit S-5A

Function/Program	Operating Indicators									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GOVERNMENTAL DIRECTION AND SUPPORT										
Bond rating by S&P	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+
Bond rating by Moody's	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2
Bond rating by Fitch	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A
ECONOMIC DEVELOPMENT AND REGULATION										
Taxable retail sales ($ millions)	6,352	6,640	6,892	7,730	8,298	7,367	7,485	7,683	8,342,682	10,486,545
Commercial construction units	12	57	127	45	36	38	59	59	115	125
Value	101,717	1,003,761	343,121	362,692	301,372	889,830	919,252	418,049	1,720,869	1,466,587
Residential construction units	80	165	165	40	42	422	448	499	506	861
Value	21,399	91,170	35,851	6,746	8,217	100,366	102,861	68,931	117,803	192,609
Housing Finance Agency										
Number of Single-Family Units Financed	386	329	314	486	527	503	161	5	0	0
Amount of Single-Family Financing Provided ($ 000s)	38,600	300,000	31,217	56,200	67,922	61,300	19,600	612	0	0
Number of Multi-Family Units Financed	0	36	736	1,509	1,115	1,555	1,893	1,237	525	7,623
Amount of Multi-Family Financing Provided ($ 000s)	651	1,997	53,160	70,870	45,647	98,534	101,205	76,358	36,051	133,510
Total Number of Housing Units Financed	386	365	1,050	1,995	1,642	2,058	2,054	1,242	525	7,623
Total Amount of Housing Financing Provided ($ 000s)	39,251	301,997	84,377	127,070	113,569	159,834	120,805	76,970	36,051	133,510
PUBLIC SAFETY AND JUSTICE										
Police										
Crime Index Offenses	67,491	58,378	48,819	42,671	39,651	40,305	40,213	39,797	36,246	32,678
Number of Police Officers	3,561	3,657	3,537	3,484	3,599	3,601	3,666	3,711	3,800	3,800
Fire										
Number of Fire Fighters	1,225	1,233	1,206	1,179	1,204	1,282	1,294	1,388	1,426	1,500
Number of Fire Alarms	175,300	148,774	146,457	155,497	115,601	125,371	118,416	119,582	119,846	187,242
Inspections	26,325	27,594	34,978	18,595	22,983	23,923	20,303	13,055	26,703	29,072
EMS										
Number Emergency Medical Personnel	309	298	304	328	321	331	354	377	342	331
Number of Emergency Responses	91,044	71,475	70,196	72,337	71,998	75,008	86,175	89,817	N/A	114,823
PUBLIC LIBRARY										
Number of Volumes	2,812,565	2,863,749	2,562,452	2,562,452	2,756,244	2,715,332	2,721,119	2,609,062	2,559,601	2,333,957

Operating Indicators by Function/Program **Exhibit S-5A**
Last Ten Fiscal Years
(Continued)

Function/Program	Operating Indicators									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
PUBLIC EDUCATION SYSTEM										
D.C. Public School System										
Number of School Teachers	5,695	5,062	5,482	5,267	5,030	4,850	4,938	4,365	5,206	4,938
Number of School Students	79,802	78,648	77,111	71,899	70,762	68,925	67,522	65,093	62,306	62,306
Number of High School Graduates	2,696	2,853	2,777	2,675	2,695	2,808	2,894	2,723	2,740	2,680
University of the District of Columbia										
Number of Teachers	N/A	N/A	N/A	233	223	N/A	260	260	208	219
Number of Students	7,464	4,754	5,284	5,181	5,358	5,456	5,468	5,241	5,424	5,364
Number of Graduates	1,041	961	692	576	581	511	466	483	508	503
PUBLIC WORKS/PUBLIC TRANSPORTATION										
Street Resurfaced (includes reconstruction); regular cover; pavement restoration (miles)	18.2	56.1	31.8	31.9	39.4	78.8	103.1	27.8	36.5	90.0
Potholes Repaired	N/A	N/A	N/A	N/A	5,354	5,802	7,005	7,679	9,177	5,272
Refuse collected (tons per day)	462	513	538	505	526	466	491	511	506	485
Recyclables collected (tons per day)	72	0*	0*	80	79	82	78	83	84	85
Tons of Bulk Trash Removed	N/A	N/A	N/A	N/A	N/A	N/A	4,898	4,994	5,362	4,956
Tons of Leaves Removed	N/A	N/A	N/A	N/A	N/A	N/A	8,983	8,014	6,651	9,569
Tons of Snow Removed	9,172,768	1,336,034	1,994	2,313,133	3,070,883	1,475,619	638,106	8,056,083	2,472,659	880,000
*Note: In FY's 1997 and 1998 recycling was suspended.										
Department of Motor Vehicles										
Number of motor vehicle registrations (1/1 - 12/31)	N/A	130,203	270,242	237,832	288,866	N/A	231,848	235,907	243,874	250,602
Number of operator licenses issued (1/1 - 12/31)	N/A	86,983	102,095	120,755	148,216	N/A	70,491	78,022	96,760	80,765
Number of operator licenses outstanding (1/1 - 12/31)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	241,304	237,526	314,650
D.C. WATER AND SEWER AUTHORITY										
Number of Customer locations	130,420	130,645	130,920	130,000	127,882	124,749	130,000	122,502	122,802	123,062
Average daily water consumption (MGD)	143	137	133	139	134	132	135	86	87	86
Daily maximum sewer capacity (MGD)	585	740	740	740	740	740	1,076	370	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740	740	740	740	740	740	740	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336	336	336	336	336	336	336	336	336
Peak Flow (MGD)	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076
CONVENTION CENTER										
Conferences held	91	98	115	139	116	165	169	163	201	189
Attendees	1,350,925	598,069	989,787	840,590	935,763	985,196	915,088	891,008	1,023,072	1,153,250

N/A: Not Available

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Exhibit S-5B

Function/Program	Fiscal Years									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Police										
Police Stations Including Satelites	8	9	10	11	13	13	14	14	16	16
Number of Patrol Cars	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,207	1,199
Fire										
Number of Fire stations	33	33	33	33	34	34	34	34	34	34
Number of Fire Fighting Equipment	64	64	62	62	70	78	78	91	92	92
EMS										
Number of Ambulances	42	42	57	57	53	53	53	65	62	62
D.C. Public School System										
Schools	159	147	149	149	146	146	146	147	147	165
Number of school buses	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	650	669
Public Library										
Number of Main and Branch Buildings	22	22	22	22	22	22	22	22	22	22
Number of Community and Kiosk Facilities	5	5	5	5	5	5	5	5	5	5
Parks and Recreation										
Acreage	800	800	800	800	800	800	800	800	800	800
Number of Recreation & Community Centers	81	71	77	77	77	77	78	75	75	72
Number of Day Camps	3	3	3	3	3	3	78	57	70	51
Number of Outdoor Swimming Pools	35	34	34	35	35	35	22	32	27	26
Number of Indoor Swimming Pools	7	6	7	6	7	7	7	6	6	8
Public Works/Public Transportation										
Number of Refuse collection trucks	74	74	52	52	52	52	52	52	52	71
Primary Street Miles	126	126	126	126	126	126	126	126	126	126
Secondary Street Miles	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007
Number of Street Lights	63,823	66,364	66,429	66,507	76,565	64,349	66,089	66,570	66,562	66,650
Number of Signalized Intersections	1,340	1,502	1,504	1,510	1,519	1,519	1,529	1,533	1,534	1,538
Number of Trees	N/A	N/A	N/A	N/A	N/A	N/A	106,000	110,000	114,000	118,000
D.C. Water & Sewer Authority										
Miles of water mains	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1300	1300
Miles of sewer mains	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1800	1800

Full-Time Equivalent General Fund District Government Employees by Function/Program **Exhibit S-5C**
Last Ten Fiscal Years
(Year ended Sept 30)

	Full-time Equivalent District Government Employees									
Function/Program	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Governmental direction and support	1,288	1,457	1,700	2,187	1,953	2,659	2,647	2,417	2,358	2,419
Economic development and regulation	717	626	584	1,014	1,205	597	556	538	1,000	986
Public safety and justice	11,122	10,611	8,738	8,548	8,244	7,328	7,169	7,379	7,547	7,963
Public education system	10,299	9,334	8,636	8,495	9,662	10,824	11,344	10,818	10,770	9,211
Human support services	3,538	3,112	3,224	3,086	4,666	1,957	4,095	4,280	4,211	4,555
Public works	2,073	2,111	2,225	1,235	1,718	2,071	1,585	1,454	1,624	1,752
Total	**29,037**	**27,251**	**25,107**	**24,565**	**27,448**	**25,436**	**27,396**	**26,886**	**27,510**	**26,886**

Exhibit S-5D

Fund Balance Trend Chart